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Solutions proposed: a summary of schemes...

London

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INTERNATIONAL FINANCIAL CONFERENCE

Paper No. XII.

SOLUTIONS PROPOSED: A SUMMARY OF SCHEMES FOR REMEDYING PRESENT FINANCIAL DIFFICULTIES.

PRINTED FOR THE LEAGUE OF NATIONS
HARRISON & SONS LTD. ST. MARTIN'S LANE
LONDON W.C.2.

This paper was prepared for the International Financial Conference which was to have been held at Brussels on July 23rd. In view of the postponement of the Conference, certain pamphlets prepared for circulation to the Delegates are being published in their present provisional form.

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INTRODUCTION.

In the original letter of invitation to the Financial Conference at Brussels, the various Governments circulated were requested to submit any proposals which they desired to put forward to the Conference to the Secretary-General of the League of Nations.

Only two official proposals have, however, been received, namely, that put forward by M. Delacroix, the Belgian Prime Minister, which has already been circulated to the Delegates nominated to the Conference and is reproduced in this pamphlet, and that submitted by M. Jean van de Putte, the Delegate of the Republic of Guatemala. This second proposal was unfortunately received too late for insertion in this paper, and is therefore circulated separately.

The Secretariat of the League of Nations, however, thought that it might be of interest to the delegates to supplement these two official proposals by some of the other numerous propositions which have recently been published or have been forwarded to the Secretariat from other than official sources, and the following articles are accordingly reproduced here:—

- Proposal submitted by M. Delacroix for the establishment of an International Bank.
- Proposal of Herr Meinl for the re-establishment of economic life in the Austro-Hungarian States of Succession.
- Notes by Professor Dr. Julius Landesberger on the establishment of a Bank of Issue in German-Austria.
- Summary of a Proposal put forward by the Swiss Free Economy League for an International "Valuta" Association [IVA].
- Proposal of Mr. F. A. Vanderlip for the issue of an International Peace Loan.
- Essay on the International Financial Problem by M. Carl Thalbitzer.
- Proposal of M. Hofman for the establishment of a "Régie Financière" under the League of Nations.
- Proposal of Dr. Hans Jordan for the formation of a Co-operative Credit Association for German Trade.
- Proposal of Dr. G. Vissering for the creation of a Gold Note.
- Proposal of Herr A. Lehner for the solution of the Exchange problem.
- Summaries by M. André Sayous.

It should be explained that no exhaustive study of the Financial Press has been made with this object in view, but that the following collection consists simply of those articles and pamphlets which have been brought before the notice of the Secretariat.

In so far as space permitted, the articles are published here in the form in which they were originally published or summarised by their authors, but in some cases it has been necessary to make extracts of the more lengthy publications. Where this has been done, the omissions have been indicated.

Dr. Vissering's article on the establishment of a new international unit of account, published in the *Neue Freie Presse*, has been selected here for publication in preference to his book on International Economic and Financial Problems in the belief that the latter (which will be available at Brussels) is already familiar to the majority of the Delegates.

In addition to the articles reproduced, two notes by M. Sayous on schemes which have been under discussion in France and Germany are inserted at the end of this paper.

I. PROPOSAL FOR THE ESTABLISHMENT OF AN INTERNATIONAL BANK

Submitted by M. Delacroix, Belgian Prime Minister and Minister of Finance.

The Existing Difficulties.

The exchange crisis is a danger to the whole of Europe. In the case of at least some of the countries with depreciated exchanges the food supply itself is in danger, because it is impossible to continue for an indefinite period to pay three times the normal value of cereals and fats, without incurring the danger of want or even famine; while others find it impossible to obtain the raw materials essential to production on which their economic life depends.

On the other hand, countries with extremely favourable exchanges find the level of their exchange damaging to their export trade, and hence to their normal trade and productive activity, with all the social consequences that such a situation implies.

Remedies.

In order to remedy this state of affairs, the balance of trade must be re-established in all European countries; production and export must therefore be increased, national expenditure and revenue balanced, and all imports not absolutely necessary restricted. The amount of paper-money in circulation must also be limited. Such are the objects to be aimed at; the best means of attaining them must be found without delay.

There will be an intermediate period. Some means must be found to bridge over the period between the present critical situation and normal conditions.

Loans not always possible.

To tide over this intermediate period, foreign loans are suggested. But is this remedy always possible? Many States no longer inspire the confidence necessary to obtain credits, and consequently cannot obtain foreign loans. Other States can obtain them only on such hard conditions that they would eventually be brought to certain ruin.

An international bank of issue.

Such being the financial condition of Europe, it is urgent, indeed essential, to set up an International Bank of Issue, in which all States, without distinction, would be represented, and which would be managed by a Committee consisting of a number of Delegates. The objects of this Bank would be to issue interest-bearing gold bonds in exchange for genuine securities. The Committee of this Bank would decide in each case whether the securities offered were satisfactory; only after thorough investigation of the proposed guarantees would it consent to issue to any State requesting a loan, bonds to the value of these securities. The guarantees would involve, in certain cases, a direct control over the yield obtained from the securities.

The situation is so critical in certain parts of Europe that common humanity calls for intervention, and for loans to prevent the populations dying of want. Yet these countries in nearly every case still possess resources which they cannot immediately make use of.

The Bank of Issue would give them the means of using these assets, during a period to be defined, and would permit them to obtain at once the funds necessary to buy essential supplies.

There are some States, especially in Europe, whose financial resources are at an end, but who, nevertheless, possess considerable natural wealth. The International Bank, by means of the financial control which it would introduce, would be the means of saving them from ruin.

The position of the Central Powers.

Moreover, the Central Powers who are under the jurisdiction of the Reparations Commission, must nevertheless be allowed a certain amount of free export. Germans must be allowed to deal with their foreign agents in order to sell their produce and obtain a supply of essential raw material. The powers of the Reparations Commission cannot be widened to that extent. Therefore, another organisation is necessary, independent of the Reparations Commission, which can control this free commerce from a purely financial point of view.

The effects of the Bond Issue.

Doubtless, the exchange market as it now exists will remain independent of the International Bank of Issue, but as a large number of international transactions will be carried out in the way described above, rises in the exchange will be retarded, and the exchange market will no longer have a continual tendency to rise. Further, States will gradually come to understand how vital it is to them to equalise their balance of trade, and consequently to limit imports to strictly necessary goods. States with a depreciated exchange having thus obtained bonds from the Bank of Issue will be able to obtain abroad, by this means, goods essential for their food supply, and the raw material for their industries and for transport services, etc. It will be clearly understood that these bonds can only be issued for the purchase of produce or goods, and not for purchase of gold. Foreign traders to whom these bonds are offered in payment will endeavour to discount them through private banks. They will have no difficulty in doing so as the security will be first-class, equal in value to gold, and secured by guarantees under international control. The system, therefore, does not entail the undesirable necessity of fresh inflations of currency. Securities will consist either of rights over customs duties, harvests, mineral products, or any produce from which a return can be foreseen in a relatively short time, and which will allow the bonds to be redeemed at a not too distant date.

The International Bank will act as a Clearing-House.

The working of the Bank will, moreover, allow rapid circulation of these bonds. The resumption of work ought to result in the re-establishment of the financial balance of each of the States affected by the crisis. The International Bank will thus be a huge clearing-house with branches in each country which belongs to it. The number of bonds given to each country will be determined by general agreement, and the clearing house will keep them at the disposal of the different countries who call for them, as and when they need them. The bonds assigned will be handed over by the Government to the Branch of the Clearing House, with instructions not to allow them to be used except for essential needs. At the same time, steps could be taken to ensure that the payments received for foreign sales of manufactured goods by those who import raw material should be put at the disposal of the Branch of the Clearing House, and dealt with at the same rate as that fixed for the bonds.

The Importance of Countries providing Raw Materials.

Without the assistance of the chief holders of raw materials and gold (American and neutral countries) it will be difficult to remedy the disease. But even without this assistance, an arrangement on a smaller scale between countries with depreciated exchanges would be most desirable and useful.

The difficult point will be the assessment of the number of bonds to be given to each country.

We must, above all, take into account the possibility of repayment, by means of the produce of industry, of the sums lent to borrowing States. The "coefficient of productivity" must, therefore, be taken into account.

International Bank of Issue.

Statutes.

Statutes of a Co-operative Banking Society to be formed by them have been drawn up by the High Contracting Parties enumerated below, as follows :—

Chapter 1.

Constitution, Headquarters, Objects, Duration.

Constitution.

Article 1.—An association on the lines of a co-operative society has been formed between the High Contracting Parties enumerated below, and all other States who shall hereafter give their adhesion to its statutes. The Association shall be called "The International Bank of Issue."

Headquarters.

Article 2.—The Headquarters of the Society shall be established at Brussels (rue , No.) ; they may be transferred by a decision of the Governing Body to any other part of Brussels, including all "communes" within the Brussels area. The Society will have one or more branches or agencies in every country which agrees or shall agree to its statutes.

Objects.

Article 3.—The objects of the Society are to make advances to its members at a favourable rate of interest, in return for real or personal property.

These advances shall be made in negotiable bonds, which shall be issued to any State applying for them in accordance with its requirements, provided that the security it offers is accepted by the Society.

These bonds may be issued only for the purchase of produce and goods considered indispensable by the Governing Body for the food supply and industrial and commercial needs of the borrowing State. Purchases of gold or precious stones are expressly forbidden.

The Society may also undertake both in Belgium and elsewhere, any financial, commercial, industrial, real estate or maritime operations.

It may in particular undertake all kinds of banking operations, and may take in hand or develop any commercial, financial, industrial, agricultural, maritime and forestry enterprise. It may open up, re-open, develop or dispose of any concessions.

It may exercise control over securities of every kind which have been given by borrowing States. It may even exercise a control over the foreign trade of these States.

Duration.

Article 4.—The Society shall have a life of years from this date. It may be prorogued from time to time or dissolved, in advance, by the resolution of a General Meeting held as laid down in Article 35 below.

Chapter 2.

Members.

Members.

Article 5.—The following shall be members :—

(1) The States subscribing and enumerated below in Article 12.

(2) All States whose application has been approved by the Society, and who subscribe at least one original share, which shall be paid up to the extent required by the Governing Body.

Admission.

Article 6.—The admission of new States as members shall be confirmed by the diplomatic representative at the Court of the King of the Belgians signing the Society's register. His signature shall be dated, and endorsed with the State seal.

Article 7.—If the Governing Body refuses to admit any State as a member, the latter may appeal to a General Meeting of the members, which shall decide the question after hearing a delegate from the appealing State.

Limitation of Liability.

Article 8.—The liability of each State is limited by the value of the securities given by it and the amount of its shares. There shall be no mutual liability.

Withdrawal.

Article 9.—No State may withdraw from the Society or withdraw its deposit either wholly or partially.

Expulsion.

Article 10.—If a State fails to carry out the obligations that it has undertaken, its expulsion may be ordered by the General Council acting as laid down in Article 28 below.

In accordance with Article 126 of the laws affecting commercial companies, the proportion of the contribution to be returned to the State expelled will be fixed by the General Council.

Expulsion from the Society shall take place following upon a statement of evidence drawn up and signed by two members of the Governing Body. This statement shall set forth the facts, proving that expulsion has been decreed in accordance with the statutes. It shall be copied into the register of members of the Society, and another copy by way of notification shall within two days be addressed under registered cover to the expelled State, through its diplomatic representative at the Court of the King of the Belgians.

Each State expelled shall, to the extent of its obligations, and for a period of five years from the date of its expulsion, be bound by all contracts entered into before the end of the year in which its expulsion has been notified.

Every State expelled may, within a month of notification, appeal to a General Meeting of members, which will give a decision after hearing the explanation of a delegate of the appealing State, according to the form laid down in Article 35.

Chapter 3.

Capital and Debentures.

Capital.

Article 11.—The capital is formed of parts or shares, each of one million francs, issuable to an unlimited number, which are registered, indivisible and not transferable.

The minimum capital is fixed at seven million francs.

Subscription of Shares and Proportion to be paid up.

Article 12.—The States named below have undertaken to subscribe shares as follows :—

(1)
(2)
(3)
(4)
(5)
(6)
(7)

On each share per cent. of the amount shall be paid up within one month from the date of the present Statutes.

The Governing Body will decide when and how calls shall be made. Each State will receive at least months' notice by registered letter addressed to its diplomatic representatives at the Belgian Court.

Article 13.—The rights of each State are represented by title-deeds bearing the name of the Society, the exact description of the holder, the date of admission, and payments made, in order of date : the whole signed by the representative of the State and by two Governors.

The title-deed will also contain the statutes of the Society.

Debentures.

Article 14.—The Society shall have power to issue Debentures.

Chapter 4.

Administration and Supervision.

Governing Body.

Article 15.—The Society shall be controlled by a Governing Body of from five to nine members. This number may be increased by a resolution of the General Meeting.

The Governors shall be elected by the General Meeting for five years : on retirement they are eligible for re-election. The General Meeting will also arrange their salaries.

Article 16.—The Governing Body will elect one of its members as President. If he is not able to be present the senior Governor will act for him.

The Governing Body shall nominate a Secretary, who need not be one of the Governors.

No State may have more than one representative on the Governing Body.

Vacancies on the Governing Body.

Article 17.—If a Governor dies or resigns, a substitute will provisionally be found by the General Council until the next General Meeting of members elects a successor.

Powers of the Governing Body.

Article 18.—The Governing Body shall have full administrative powers and direction of policy in all matters in which the Society is interested. It may exercise all powers not expressly reserved by law or these Statutes to the General Meeting or the General Council.

In particular it shall have full power to deal with all operations connected with the objects for which the Society has been formed, as defined in Article 3 above.

It may, amongst other things, grant advances, loans and credits to shareholding States ; accept as guarantee any reversion, mortgage or security ; accept money or securities to any amount ; issue all bonds ; create and issue debentures ; lease or work concessions of any kind ; issue, endorse, guarantee and accept all promissory notes, drafts and bills ; exercise control over the use of sums lent by the Society on securities given by borrowing States, and even over their foreign trade ; accept or refuse admittance of new States into the Society ; forego any rights or give full discharge before or after payment for all registries, priorities or mortgages ; negotiate, take legal action, come to terms, and compound ; and may regulate the use of the Society's capital. This list of powers is enunciatory, and not exhaustive.

The Governing Body shall likewise nominate and dismiss the Directors and Managers of the Branches and Agencies of the Society; fix their salaries or emoluments and, unless it has delegated this power, appoint and dismiss all officials employed or paid by the Society, fix their salaries or emoluments, and, if need be, their fidelity guarantee.

The Governing Body may delegate part of these powers to one or more of its members, or to one or more Managers or Directors. It will define the extent and duration of their powers and, if need be, their remuneration.

The Council may, further, delegate the powers necessary for the transaction of current business to a General Manager.

Meetings of the Governing Body.

Article 19.—The Governing Body will meet by order of the President whenever the affairs of the Society require it, or whenever two Governors request a meeting.

It will meet at least once a month.

Meetings will be held at the place named in the letter calling the Meeting.

Decisions of the Governing Body.

Article 20.—No discussion or decision of the Governing Body will be valid unless at least half of its members are present.

All decisions will be made by an absolute majority of votes.

Article 21.—Whenever the Governing Body is called upon to decide as to the admission of a new State into the Society, a majority of three-quarters of the votes cast is required.

Whenever a vote is taken on the granting of a loan to a State which is a Member of the Society or on the question of accepting the security offered by a borrowing State, a three-quarters majority is required, not including the Governor who represents the borrowing State.

In these three cases the reasons for the decision must be stated.

Minutes of the Meetings of the Governing Body.

Article 22.—The deliberations of the Governing Body will be recorded by minutes signed by the members present and taking part in the voting, and by the Secretary. These Minutes will be written in a special book.

Copies of the Minutes must be signed by the President and Secretary or by two Governors.

Responsibility of Governors.

Article 23.—The Governors are not personally liable for the operations of the Society. They are responsible only for the execution of their individual duties, and have no collective responsibility.

Powers of Signature.

Article 24.—Except where special powers have been delegated, all documents binding the Society, except those of daily routine, and all warrants and authorizations, must be signed by two Governors, who need not quote a previous decision of the Governing Body.

Papers of daily routine will be signed by a Governor and by the managing director or a director.

The Supervising Committee.

Article 25.—The operations of the Society will be supervised by a Supervising Committee of three members, elected by the General Meeting for five years, from among the representatives of those States not represented on the Governing Body.

The Supervisors will be dismissed or re-elected by the General Meeting, which will also fix their salaries. No State may have more than one representative of the Supervising Committee.

The number of Supervisors may be increased by the General Meeting.

If a Supervisor dies or resigns, the General Council can replace him temporarily until the next General Meeting, which will elect his successor.

Powers of Supervisors.

Article 26.—The Supervisors separately or together shall have the right to inspect the books and papers of the Society at any time, but must not remove them. The Governing Body must supply them half-yearly with a statement of the Society's position.

All offices and branches of the Society shall be liable to be inspected by them at any time.

The Supervisors will make a report on their work at the annual General Meeting, and may propose any measures they consider likely to improve the prosperity of the Society.

Liability of Supervisors.

Article 27.—The Supervisors shall have no personal responsibility for the liabilities of the Society. They are responsible only for the duties assigned to them, and individually, not collectively.

General Council.

Article 28.—The Governing Body and the Supervising Committee combined form the General Council, which can transact business only when at least six of its members are present. All decisions are arrived at by a majority of votes.

The General Council can alone decide upon the expulsion of any State, when a majority of three-quarters of those voting shall be necessary to make the decision valid, not counting the vote of the Members of the General Council belonging to the State to be expelled.

Calling of Meetings.

Article 29.—Special Meetings may be called whenever three Governors and one Supervisor or two Governors and two Supervisors shall require it.

Article 30.—All Notices calling meetings, whether of the General Council or the Governing Body or the Supervising Committee, shall be sent by registered letter on the instructions of the President, and failing him by the senior member of each of these bodies.

Chapter 5.

General Meetings.

General Meeting.

Article 31.—The General Meeting will be composed of representatives of all the States who are Members. Each State may be represented only by one delegate. The

name of this delegate must be sent to the Chairman of the Governing Body at least three days before the Meeting.

A quorum will be formed, and the Meeting may proceed to business, whatever the number of States represented may be.

The Right to Vote.

Each State shall have as many votes as it has shares. Nevertheless, no State may ever have more than   votes.

No delegate may vote in respect of a number of shares exceeding one-fifth of the total number of shares subscribed, or two-fifths of the shares represented by those present.

Representation by Proxy.

Article 32.—Each State may be represented at the General Meeting by the delegate of another State, who shall hold a special mandate for this purpose.

Chairmanship and Staff.

Article 33.—The General Meeting shall be presided over by the Chairman of the Governing Body or, in his absence, by a Governor chosen by his colleagues. The Chairman appoints the Secretary, and the General Meeting elects two scrutineers.

Deliberation

Article 34.—Decisions of the General Meeting shall be taken according to the ordinary rules for such Meetings, and except as otherwise provided in the Statutes, by an absolute majority of votes cast.

The voting will be by the calling over of names, unless by a majority the General Meeting decides that it shall be otherwise taken.

In cases of election or dismissal of Governors or Supervisors the voting will be by secret ballot.

In cases of election, if no candidate has an absolute majority, the voting-papers of those candidates who have obtained the most votes shall be scrutinized, and in the event of the number of votes being equal, the senior candidate shall be elected.

Majorities required in Certain Cases.

Article 35.—Whenever the General Meeting has to decide upon an alteration of the Statutes, or decide in advance upon the prorogation or winding up of the Society, at least half of the shares subscribed must be represented and no decision shall be valid unless a majority of three-quarters of the votes cast is obtained.

Annual General Meeting.

Article 36.—The Annual General Meeting will be held with full powers on the of   , and for the first time in 1920 at   o'clock at Brussels at the place named in the notice calling the Meeting.

Notices calling the Ordinary General Meeting shall be sent by the Chairman of the Governing Body under registered cover at least one month before the meeting to the diplomatic agent of each State at the Court of the King of the Belgians.

These notices must contain the agenda.

Extraordinary General Meeting.

Article 37.—An Extraordinary General Meeting may also be called either by the Chairman of the Governing Body or by the Chairman of the Supervising Committee whenever considered necessary.

It shall also be summoned at the request of five member States addressed in writing to the Chairman of the Governing Body through the diplomatic representative

of these States at the Belgian Court. The procedure prescribed above shall be followed in calling Extraordinary General Meetings.

Powers of the General Meeting.

Article 38.—The Ordinary General Meeting shall receive the reports of the Chairman of the Governing Body and of the Supervisors. It shall decide upon the conclusions arrived at in these reports, upon the balance sheet and the statement of profit and loss, and proceed to hold the statutory elections.

Further, it shall discuss and decide any other business, provided it has been notified in the Agenda.

Minutes of General Meetings.

Article 39.—The Minutes of the General Meetings shall be written in a special register and signed by the Members of the " Bureau."

A copy of the Minutes of each Meeting, certified correct by the Chairman and the Secretary, shall within a month of the Meeting be sent to the Finance Minister of each member State.

Chapter 6.

Lists of Securities, Balance Sheets, Profit and Loss Statements

List of Securities and Balance Sheet.

Article 40.—On 31st December of each year, and for the first time on 31st December 19 , an account shall be drawn up by the Governing Body of all real and personal property and of all assets and liabilities of the Society, with an Annex containing a *résumé* of all the liabilities, and a valuation of all real and personal securities given by each borrowing State and, on the opposite side, the amount of bonds which have been allotted to it.

At the same time, the accounts of the Society shall be made up and the Governing Body shall draw up the balance sheet and the profit and loss account, making provision for the necessary reserves.

A copy of the balance sheet and the profit and loss account, as also the report of the Supervisors and the statement of securities given to the Society by each borrowing State, shall be sent to the diplomatic representative of each member State, together with the notice calling the General Meeting.

Divisions of Profits and Reserve.

Article 41.—The credit balance shown on the balance sheet, after deducting all charges, general expenses and provision for sinking fund, shall form the net profit of the Society.

From this profit shall be appropriated annually :—

1. Five per cent. for the formation of a reserve fund.
2. A sum sufficient to distribute a dividend at the rate of 5 per cent. per year upon shares in proportion to the amount to which they are paid up.

The balance shall, following a decision of the General Meeting at the instance of the Governing Body, be either carried forward for the formation of a special emergency fund, or devoted to one or more humanitarian or charitable objects.

Chapter 7.

Liquidation.

Liquidation.

Article 42.—When the Society is dissolved, the then Governors will automatically become the liquidators. They shall have the widest possible powers, especially those mentioned in Article 156 and following Articles of the codified laws concerning commercial companies, and they shall exercise these rights without being obliged to call together the General Meeting.

The final net balance of funds shall be re-divided between the member States in proportion to the amount they have paid up.

Article 43.—During liquidation the powers of the General Meeting will remain the same as during the existence of the Society. In particular it will approve the liquidation accounts and will give a receipt to the liquidators.

It will be called annually by the liquidators.

Chapter 8.

CHOICE OF DOMICILE AND JURISDICTION.

Choice of Domicile.

Article 44.—Each member State shall be domiciled at the headquarters of the Society for all purposes connected with the liabilities and rights mentioned in these statutes.

Jurisdiction.

Article 45.—All disputes or litigation which may arise between member States and all disputes or litigation between Governors, Supervisors, Directors and Managers, or between these officials and the Society, shall be decided finally by arbitration. Each party shall nominate an arbitrator. In the case of division of opinion, a third arbitrator shall be nominated by the two original arbitrators.

Chapter 9.

TEMPORARY MEASURES.

Temporary Measures.

A General Meeting held without being officially called and with no prepared Agenda, immediately after the formation of the Society, shall fix the original number of Governors, nominate the Governers and Supervisors, and fix their salaries; and may legislate within the limits of these statutes on any other subject.

II.—PROPOSED SCHEME FOR THE RE-ESTABLISHMENT OF ECONOMIC LIFE IN THE AUSTRO-HUNGARIAN STATES OF SUCCESSION.

By HERR MEINL.

Difficulties to be faced.

The States into which the late Austro-Hungarian Empire has been broken up are suffering from :—

1. The want of raw materials from the world outside, and
2. The breakdown of the normal distribution and exchange of products of these different States as between themselves.

Basis of proposed scheme.

The theory of the proposed scheme is based upon the following lines of economic reasoning. Let us imagine for argument's sake that the whole of Europe and America were one economic area with no frontiers or restrictions of traffic and trade as between one part of the area and another. It would not matter in which part of such an area the factories were situated, in which part the crops and raw materials were produced, where the coal mines or iron fields lay. For economic purposes these sources of wealth would be the property, not of separate nationalities, but of the whole. The situation would be precisely the same as it is in Great Britain or the United States to-day. The only restriction to the free exchange of products would be the difficulties of transport over distances of land or sea from one part of the area to another.

Austria-Hungary as a province or country of such an area starving for want of raw materials, would be regarded from a business point of view precisely as would Lancashire or Massachusetts if they were in a similar unfortunate situation to-day. In view of the general shortage of commodities of all sorts, such excellent factories, highly-skilled labour and management as exist in Austria would not be allowed to remain unproductive. Capital would flow to these provinces where the cost of labour in terms of gold value was so cheap and the possibility of profit so great. The difficulties of transport would be no greater than they were elsewhere. Indeed Austria-Hungary is geographically in a favourable situation.

Artificial obstacles to recovery.

Now, the only reason why all this does not happen in the case of Austria to-day is that the various nations have set themselves up within hard and fast frontiers, and all sorts of economic restrictions and barriers exist which hamper the normal course of trading and surround it with incalculable risks. The business man fights shy of the depreciated currency and the dangers of political interference and social upheaval.

Under the proposed scheme it is suggested that these obstacles may be overcome and that the normal trade may be induced to flow into these industrial areas by a plan which will *ignore the depreciated currency, provide guarantees against political interference,* and *be the surest preventive of social upheaval.*

Raw materials to be worked on commission.

Raw materials will be supplied to these countries *in trust,* remaining throughout the process of manufacture the absolute property of those who send them. The finished goods will not be sold for crowns or other depreciated currency but will be re-exported to those markets which can give real value in money or goods in exchange. The countries in distress will receive a share of the produce for their services and this it is hoped will in the course of a few years re-establish their economic life to something like the pre-war standard of prosperity and independence.

At the same time, the production of food in the countries themselves will be stimulated by supplies of manufactured goods. It is a mistake to suppose that in the matter of food the Austrian Succession States, when taken together, are not self-supporting. While it may be true that Austria proper cannot live on the food produced within her present borders, Jugo-Slavia and Hungary should both have a surplus, which at present they are unable to supply to Vienna because Vienna has nothing with which to pay for it. When, however, the factories of Vienna are set to work again, this food will be forthcoming. Only during the transition period a certain supply may still have to be sent in from outside on credit, or by way of charity.

Guarantees required.

The indispensable guarantees required for the new business are :—

1. That the property in the goods shall be safeguarded.
2. That complete freedom of re-export or exchange in the various States themselves shall be guaranteed by the Governments concerned.

No financial assistance from the British or other Governments need be required provided these guarantees are obtained, but the countries must be assured of their share of coal and foodstuffs in any scheme of world rationing.

In order to carry out the scheme it is essential that the various interests which are prepared to enter the field should co-operate to form a combine possessing sufficient authority and power, both financial and political, to secure these guarantees.

It has been ascertained that the Governments of Austria proper and Czecho-Slovakia, the two principal manufacturing areas of the late Empire, are in principle prepared to give the guarantees required, and further that the manufacturers themselves are willing and eager to lend their factories in exchange for a share of the raw materials which may be imported under the scheme.

Numerous firms on this side also have expressed a desire to enter the scheme and it only remains to find the machinery by which the interested parties may be brought together and the business started under Government approval and support. Prominent persons both in the Government and outside have been approached on the question, and all have given their unqualified blessing to the scheme. Many have promised their active support. In the absence of huge international loans which are improbable and indeed undesirable for many reasons, the scheme proposed is the only practical step which can be taken to relieve the appalling state of economic chaos in which the War—and the Peace—have left the countries of Central and Eastern Europe.

Procedure for carrying out the proposed scheme.

Syndicate to be formed.

It is suggested as a first step that the firms interested in this scheme should meet together to discuss the question, and, if agreed on principle, that they should at once form a Committee for the purpose of working out the scheme in detail. An office should be set up in London to receive and examine proposals coming from this side. At the same time, expert representatives should be sent out to Austria to study and report upon the situation over there. To cover these preliminary expenses a fund would have to be subscribed by the parties interested, which fund to begin with need not exceed say £2,000 to £3,000.

Should the reports from Austria be favourable, a syndicate or trust would be formed by the interested firms with its head office in London and branches in Vienna and each of the other capitals of the late Austro-Hungarian Empire. The business of the syndicate would be confined to that of investigating, organising and controlling the transactions entered into by the participants. It would be empowered by the participants to act as security holder in much the same way as a local agent or banker acted formerly, only in this case it would represent the *joint and* several interests of all the participants. The latter might either take the initiative themselves in entering into transactions or leave it to the syndicate to make proposals and recommendations.

The object of combining the representation of these interests into one agency is :—

1. To secure greater authority in negotiating with the various Governments and business groups in Austria.
2. To ensure the co-operation of pre-war creditors with the new interests. This is most important, and satisfactory arrangements for the settlement of these debts would be an essential preliminary to any new business.

The participants in the syndicate will be free to accept or refuse any proposed business and if they accept they may do so on any lines they choose and not only on those recommended by the syndicate, but in order to secure for the syndicate the necessary authority in conducting negotiations, it would be desirable that participants should entrust the syndicate with the widest possible powers to act on their behalf.

But freedom of participants maintained.

The participants would make their own financial arrangements as it is not proposed that the syndicate should have a large capital such as would be required for the giving of credits. The capital of the syndicate would be limited to what is required for the expenses of management.

Capital of syndicate to be small.

The economic revival of the countries of the former dual monarchy is only possible if economic union and free traffic between the Succession States are re-established and this can only be brought about by a powerful combine which can hold out the bait of a *certain supply of raw materials*, on the condition that all restrictions which might prejudice the successful working of the business be removed.

Free trade between Austrian States of Succession.

As a further illustration of the necessity for the proposed combine, negotiations would have to be undertaken with a view to making the Bohemian coal freely available for Austrian factories. Again Jugo-Slav food supplies must be released to the working people in Vienna, the present prohibitive export tax being abolished, for without such economic necessities any scheme of reconstruction must fail. Terms would have to be arrived at with the Reparation Committee by which their rights to alienate Austrian private property under the Peace Treaty must be suspended. In the absence of a combine sufficiently powerful to dictate its terms and conditions, all such negotiations would be fruitless.

Parties likely to be attracted to the scheme.

1. Bankers, merchants and manufacturers who formerly did business with Austria-Hungary and wish to resume the same either for its own sake or in order to obtain repayment of pre-war debts.

Bankers, merchants, and manufacturers.

Accepting houses.

Accepting Houses might be attracted by the possibility of resuming business on lines involving the minimum of risk and at the same time affording to their Austrian debtors the only possible means by which, in the absence of a Government scheme, they may be in a position to secure the necessary foreign valuta.

Credits could be arranged with their old clientèle of Austrian manufacturers and importers by which raw materials would be supplied on the understanding that the goods remained the property of the Accepting House pending manufacture and re-export.

An agreed proportion of the proceeds of the goods would be available for repayment of pre-war debt, which would have to be acknowledged in full. The remainder, after deducting the cost of manufacture, would be utilised to buy fresh supplies of raw material. Without a controlling agency on the spot such as would be afforded by the proposed combine, such business would be impracticable. The Austrian banks who were previously entrusted with this control are to-day in a very different financial position from what they were before the war, and bound up as they are with their Governments and with the depreciated currency could no longer be regarded as suitable Trustees of British interests. The organisation and experience of the banks would, however, be valuable to the syndicate, and it might be arranged that some of the "new" business proposed should be handled by specially-created departments, which could be independent of the present currency and the old liabilities.

Merchants interested in the export of Austro-Hungarian produce.

2. Merchants interested in the export of Austro-Hungarian produce, the growing of which would be stimulated by the resumption of normal supplies of manufactured goods.

At present farmers are unwilling to part with their crops for paper Crowns, as clothes, boots, &c., are unobtainable at any price.

In this connection the proposed acquisition of the Danube steamship companies by a British group would greatly assist in the export of the produce of Hungary, Roumania, &c., which could be purchased in barter with manufactured goods produced under the scheme from Austria proper and Czecho-Slovakia. It would be the duty of the representative syndicate in Austria to see that no prohibitive tariffs such as exist at the present time were allowed to hamper the free interchange of these goods. Such business would otherwise be impossible.

Firms anxious to avail themselves of opportunities for manufacture in Austria.

3. Merchants and manufacturers who wish to take advantage of the present low cost of production in terms of pounds sterling in Austria.

Prices for manufactured goods all over the world are notoriously high and rising all the time owing chiefly to the increased cost of labour. In Austria the maximum wages of skilled artisans, *e.g.*, in the metal trade, are at the present day from 700 to 800 Crowns per week. In this country it has been ascertained that similar workmen are receiving the equivalent in sterling of 6,000 Crowns per week. In the United States the figure is 12,000 to 15,000 Crowns per week. Costs of management, rent, &c., would be in a similar proportion.

It is clear, therefore, that there is an immense advantage to buyers of manufactured goods as well as to manufacturers in profiting by this extraordinary position of the exchanges. The Austrian factories only want the raw material.

Merchants interested in securing cheap manufactured goods for export to the East or to South America or elsewhere might be tempted to supply

raw material to Austrian manufacturers on the condition that the finished goods were manufactured to meet their special requirements. Similarly with importers of the numerous high-class fancy articles which have been a speciality of Austrian manufacture and which could be obtained at a fraction of their cost in this country. Competition with British goods or over-production in any form is not to be feared in the near future.

Manufacturers in this country or in America who, owing partly to labour difficulties and partly to excessive cost of erecting new buildings and plant, are unable to turn out the goods for which they have orders sufficient to last them for months or years ahead, would find it advantageous to contract with Austrian manufacturers, to make use of their idle factories. These factories are in perfect working order, having been enlarged and refitted during the war, and would be ready to start work immediately.

Factories leased or goods manufactured on commission.

They could either lease the factories outright for a term of years converting them for practical purposes into branch establishments of their own or they could send materials to be manufactured to order for an agreed commission. In either case no outlay even for management would be required except the cost of raw materials and in some cases coal.

A large number of the biggest manufacturers in Austria of cotton, rubber and leather goods among others have already declared their willingness to contract on the above lines. The Secretary of the Chamber of Commerce in Vienna has stated that the great majority will be eager to come in once the scheme is started. Those in the other Succession States would follow suit, as there would be no other means of obtaining the necessary raw materials.

A number of manufacturers and merchants in London and the North of England have also expressed their desire to take advantage of the scheme. Negotiations are already in progress with the Governments concerned to provide guarantees that the goods shall be earmarked from their arrival in Austria, during their manufacture, and until their re-export as the property of those who will supply them. Under the proposed scheme the syndicate as nominee of the various participants would be owner of the goods throughout.

Time required.

It is anticipated that for the initial transactions a period of about twelve months—depending upon the nature of the goods—would have to be reckoned with from the time raw materials are shipped in transit for Austria till the date on which the finished goods would be available for sale and conversion into foreign valuta. This would be reduced in subsequent transactions when transport and coal conditions improved.

A list of firms in Vienna and Succession States willing to enter the scheme, together with the class of goods they are able to turn out, would be provided in London as soon as the syndicate were established. Introductions would be arranged for and if necessary contracts prepared by the syndicate.

Larger schemes for the purchase outright of Austrian properties would also come within the scope of the syndicate, and it is anticipated that there will be no difficulty in attracting a staff, both in London and Austria, competent to handle every kind of commercial and financial proposition.

III. NOTES ON THE ESTABLISHMENT OF A BANK OF ISSUE IN GERMAN AUSTRIA.

By Professor Dr. JULIUS LANDESBERGER, President of the Anglo-Austrian Bank.

LUCERNE,
October 10th, 1919.

I.

Position of Austro-Hungarian Bank.

In accordance with the provisions of the Treaty of Peace—provisions which constitute a grave violation of the privileges of the Austro-Hungarian Bank—this Bank must begin its liquidation operations the day after the signing of the Treaty of Peace. Moreover, each of the States of Succession must, within twelve months, call in the stamped notes of the Austro-Hungarian Bank and replace them with its own money or some new currency. On these grounds alone, the question of the establishment and organisation of a new note-issuing bank for the Austrian Republic presents itself as one of the most immediate problems to be faced.

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Currency depreciation and debt.

The depreciation of money at home and the decline in its purchasing power is an immeasurable evil, which has primarily contributed to the complete disorganisation of public and private budgets and accounts. The only thing, however, which can lighten the almost grotesque and disproportionate burden of debt which has been laid upon us, is precisely depreciation. Far-reaching measures against internal depreciation cannot, therefore, be taken unless a general financial scheme for the discharge of the debt is evolved.

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External depreciation of the krone.

The depreciation of our money in the international market has gone even further than the internal depreciation. The rate of exchange has been at the mercy of speculation in neutral countries. The purchasing power of the Crown at home has not sunk nearly so low as its exchange value in neutral countries. The rate of exchange, however, is the visible test: its fall to an impossibly low point ruins the international credit of the country and raises the cost of raw materials and foodstuffs to a maximum; abroad it stands as a symbol of industrial ruin. But there is no hope of a permanent amelioration, until the question of a direct or indirect issue of State notes is decided. The question of establishing a bank of issue appears once again to be the heart of the problem.

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A new bank of issue.

The bank must be in a position indirectly to give the support which even the most powerful credit-institutions need in order to finance short-term State-loans; while not, however, being drawn into the vortex of our disorganised public finance. It must be in a position, also, to serve the international money market and gradually to bring the value of foreign money into a stable (not forced) proportion with the value of our own money, and, as it were, to stabilise the trade-value of the latter without recourse to legal steps for adjusting these matters.

In the following outlines of such a banking-scheme no complete or final scheme is drawn up. A mere general outline, rather, of the conditions and

probabilities of this new bank is aimed at. Besides these, international agreements and special measures adapted to certain practical needs may be considered, so as to complete this scheme, or rather the organisation which it outlines.

Based on foreign capital.

(1) The new bank must substantially be based on foreign capital. It must be called into life under the protection of the great foreign banks of issue and of the American Treasury. Its capital must be paid for either in gold or in securities based on gold. Thus the bank will be able to rely on a considerable reserve in gold and securities based on gold. The establishment of the bank under these conditions, would be by means of a consortium of the great banks of those countries which are concerned in supplying credit and raw material to German Austria.

Foreign holders of Austro-Hungarian Bank shares might receive priority options.

It is a point whether special treatment might not be accorded to foreign holders of Austro-Hungarian Bank shares in the way of priority option in the shares of the new bank, in so far as they were in a position to make payment of capital in gold or gold-backed securities. It would certainly be very useful to allow participation in the bank to Austrian capital at a fixed quota of specie and gold-backed securities still due to or at the disposal of the State.

A Limited Liability Company.

The bank should be established as a Joint Stock Company. Participation by the State, which modern legislation regarding banks of issue demands, should certainly not be excluded, but the bank should in practice be independent and under the auspices and direction of the most important countries with which we maintain international transactions.

Independent of the State.

There can be no doubt, however, that even the indirect requisitioning of the funds of the bank by the State, for instance by means of re-discounting treasury bonds or bills, or Lombard loans cannot be permitted, unless the sanction by a supreme authority mainly independent of the State is obtained.

The conditions under which the Joint Stock Company should be granted its charter must be established in such a way that, while the legitimate financial interests of the State are safeguarded, they are made attractive enough to induce foreign countries to take a share in the bank by subscribing to it.

Sale of Austrian-held foreign securities through the bank should be allowed.

(2) The new bank will come into existence with a greater or smaller fund of gold or gold-backed securities, according to the amount of its share-capital. It is important, however, from the point of view of our general economic position, not to rest content with collecting the bank's share-capital, but to open up other sources of foreign securities.

In my opinion this is not impossible, since some of the holders of foreign securities which have been called in are likely to wish to avoid speculation on the exchange, to which course they would be forced if the securities were tied up. Although the State has now called in these Securities for the purpose of financing foodstuff credits, and will, therefore, wish to have these primarily at its own disposal, it might be justifiable from the point of view of the exchange to allow the holders of the called-in foreign securities to sell at least a part of these through the Bank of Issue, on condition that they put the value they realised at the disposal of the bank in return for long-term (say

five-year) bank debentures in the same currency as that in which the shares were sold. In this way the holder would avoid speculation on the exchange and would still retain securities bearing their foreign value. These bank debentures would be redeemable at par, but in the interim would be subject to fluctuating rates of interest, which, in order to avoid conflicting claims, must not be calculated at a rate more than a certain amount less than the official rate of discount of the principal issuing bank of the State in whose currency the shares are quoted.

The half-yearly dividends of these bank debentures would thus be payable at a fluctuating rate in the respective currencies. As, however, they must, at the end of five years, be redeemed at the par value in foreign currency by the bank, that is, by an unquestionably solvent debtor, they would represent an investment of the first order from the point of view of the exchange and of security. They would be admitted for quotation on the Vienna Stock Exchange.

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Functions of the Bank.

(3) How is this bank to be formed so as to achieve the ends in view, viz., to put at our disposal foreign currency and credits, to regulate the share-market, to centralise and watch the foreign money-market, and at the same time to undertake the functions of a central note-issuing bank for Austria itself, *i.e.* to undertake the circulating of notes of the Austro-Hungarian Bank and to take its place in general business transactions?

Its ultimate and most important task would be gradually to bring about an approximation in value between its international means of payment (which must be backed by gold) and the internal rate of exchange within attainable and desirable limits, and subsequently the general stabilization of values; all this acting not under pressure but as part of a carefully thought out banking policy.

Two banking departments.

(4) In order to achieve this purpose the bank would have to be organised in two Departments: (*a*) a foreign (currency), and (*b*) a home (banking) department. The home banking department will no doubt be called upon, under the Treaty of Peace, Article 206, paragraph 2, to take over the circulation of the stamped notes of the Austro-Hungarian Bank, to replace these by new domestic currency issued by the new bank, and to administer this circulation of notes according to the principles laid down in the following paragraphs. The new bank will therefore issue and call in domestic notes and put them again into circulation as circumstances may require. But the volume of notes issued by it, in place of those of the Austro-Hungarian Bank, must at the same time constitute the maximum which it will be authorised to issue in the future. One of the principles this system aims at realising is that the circulation of domestic notes, which are legal tender, should not be inflated beyond the original level, equal to the amount of the German-Austrian stamped notes of the Austro-Hungarian Bank. On the contrary, this circulation should be gradually decreased. The bank should, therefore, only obtain a right of issue of these domestic notes up to the present maximum. On the other hand, the foreign Department should have the right to issue "currency (exchange) notes" in proportion to its gold-reserve and subject to very stringent regulations with regard to gold-backing; but no maximum amount in figures should be fixed.

The Foreign Banking Department.

The foreign banking department disposes of and administers a reserve in gold and gold-backed securities and bills. Moreover, it has at its disposal such foreign means of payment and currencies as marks, francs, lire, etc., not backed by gold, in exchange for bank debentures expressed in foreign currencies.

Issues notes.

The foreign banking department should obtain the privilege to issue special banknotes based on the stock of gold and gold-backed securities in the bank. These banknotes should be backed to the extent of a third by gold or claims on gold. The remaining two-thirds of the currency notes should be covered by negotiable securities, entirely made up of bills of exchange bearing the necessary number of signatures proving the obligation of the debtor to repay in bank currency notes or effective gold values under the bill. Deposit transactions ("Lombard-Geschäft") are excluded.

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On a gold basis.

Austria will have to decide to adhere to a foreign currency system, be it francs, marks or dollars. Whichever it be, the currency notes will have to be expressed in gold francs, gold marks or fifths of a gold dollar. There would be no objection, however, to expressing them in terms of the existing gold-kronen Standard.

The legal constitution of these currency notes is most important. There appears to be no doubt that their redemption is at present impracticable and that, on the other hand, they should not be given forced circulation. They should further, in my opinion, not be given any definite legal relationship to the value of the paper kronen. These currency notes should circulate for commercial purposes and be commercial tender, but should also be negotiated as such on the foreign and the Vienna Bourses, at the latter for Crown-notes, and should be assured as large and varied a market as possible.

In International dealings it should be possible to present and accept these currency notes as a means of payment not subject to depreciation except for variations within definite limits. Strict regulations for the backing of these notes are therefore necessary. A special rate of discount should also apply to these currency notes, which may and will differ from that for business in connection with domestic notes.

These notes should be used for the purchase of raw materials

Currency notes should not be circulated as credits intended for foodstuffs, neither should they be used in the event of Government credits for foodstuffs, all the more so as their total, even in the case of a one-third backing only, would be far from sufficient to meet such foreign expenditure. The issue of currency notes should more particularly be a means of rendering possible and obtaining such foreign credits and gold payments as may in the further course of business and production cause a renewed call on foreign countries, *i.e.*, of obtaining raw materials to be worked up for export, of temporarily meeting such expenditure in foreign countries as may later become a source of income from them, of compensating passing differences such as arise from the periodical oscillations of the balance of payments, and finally, with the purpose of also rendering possible an inland market in gold-backed means of payment. The chief consideration in all these operations is that currency notes should only be issued in the way of credit when, according to the nature of the business for which they are to be used, there is a certainty that these notes will be returned as such or in gold.

Relation of this bank to foreign banks.

These strict regulations notwithstanding, the balance of payments will presumably for some considerable time go against Austria; so that currency notes could only be kept up to their face-value by the bank entering into a syndicate with the main foreign central banks of issue. The arrangement should be that the bank be given credit up to a certain point in the currency of the various countries, against a backing in currency notes. It is therefore essential that the bank itself be founded under the patronage of the foreign central banks of issue and those banking concerns whose standing is such as to give it international credit to the approximate amount of its future circulation in currency notes.

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II.

Possible general extension of the proposal.

The method of Issue Notes for trading purposes, independent of Inland Currency, would, in my opinion, not only be worthy of adoption in future by the proposed German-Austrian Bank, but its general acceptance would materially help to solve the immense difficulties of the exchange. The noteworthy feature in the European Exchange at the present moment is that notes of the largest European Banks, including the Bank of England, are definitely independent of the Gold Standard. The dollar has not as yet taken the place of the London Bill of Exchange, and so long as the Bank of England is not in a position to resume payment of its notes in gold, there is no definite standard of values in Europe.

While the exchanges of the Great Powers which took part in the War fluctuate mutually owing to the daily balancing, the notes of the smaller neutral States are nearest to the Gold Standard, and show a certain stability. The result is that their money markets have a much greater influence on the rate of exchange in the markets of the Great Powers than is warranted by the importance of the smaller States in international commerce; and also that States with no market for bills of exchange have become a central point for speculation in International Exchange Rates.

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With the Great Powers, formerly belligerent, the constant variations between the purchasing power at home and the foreign value of their currencies involve great risks and also opportunities for gambling. The covering of these risks by insurance adds to the cost of materials and causes a rise in prices. Gambling, in spite of all measures against illicit frontier trade, leads to uneconomic and harmful profiteering.

In my opinion this state of affairs can only be remedied if the banks of issue of the Great Powers can re-establish their influence in the markets of the world. This influence has of late been slipping from them more and more, in spite of all economic restrictions.

International note issue

Obviously this aim cannot be reached by financial measures alone. Yet how great is the need may be seen from the fact that this problem is shortly to form the subject of a Conference of the League of Nations. I consider that it would more easily be attained if each of the large banks of issue would set aside a definite part of its gold reserve to guarantee the issue of currency notes, according to the scheme I have outlined.

These currency notes would be balanced against each other by the central banks, and on this basis a foreign credit system could be opened for the subjects of the various countries. The system would work more easily if each bank of issue were able to reckon on a certain proportion of the currency notes of other banks which it held as first-class securities, in arranging to cover its own general issue of notes.

Each bank of issue must also employ the balance of foreign currency notes issued by it, and at its disposal, to establish and control a market for such notes in its own country, according to the rules of sound business.

For international trade only.

These currency notes will naturally not be put into general circulation, but will serve as an auxiliary means of doing business. Individual commercial transactions would be effected in the home currencies of the respective countries, and there would still be a fluctuating rate of exchange between currency notes and the currency of each country. The special advantages of this system would be as follows :—

(1) The currencies of the different countries concerned would fluctuate in relation to this international standard and not as now (in the present very changeable manner) in relation to one another.

Advantages. A common measure of value.

(2) By stringent provisions for covering currency notes, the gold basis would become more general; which basis enables every bank of issue to deal in the exchange market. By means of the currency notes and credit, which banks of issue will have at their disposal by balancing these notes against each other, the banks will be able to establish their position in the exchange market of their own country and to exercise a steadying influence in a manner much to be desired. This will be effected in spite of the gradual withdrawal of all the compulsory restrictions, which have not proved successful.

A step towards the restoration of a gold standard.

(3) Naturally, it is essential that the banks of issue of neutral States should share in the issue and circulation of currency notes; the influence of their exchange markets would thus decline more quickly; but in view of the speculative nature attaching to their influence, the decline would be in accordance with their own interests from an economic point of view, and also in the interest of stability of international exchange.

The extraordinary influence of small markets in exchange would be lessened.

(4) A large part of international money circulation might be done away with by settling of liabilities. In proportion as this were done, the gold basis of each individual bank of issue would acquire a stronger position in international circulation.

Gold would be economised.

(5) Such an arrangement might replace the clearing house for banks of issue proposed in other quarters. The clearing house would certainly help to remove difficulties of international exchange, but it lacks the advantage secured by broadening the gold basis by issue of currency notes. Moreover the clearing house presupposes that all banks of issue shall deposit gold abroad in some third place, an arrangement which will not be carried through for a considerable time. Besides, with the currency-note system each bank of issue can pursue its own policy, whereas the notes of the clearing house would be used to serve its own

The necessity of a clearing-house would be obviated.

policy only—in the main at any rate—and this policy will actually be only the policy of a majority of members.

In face of the exceptional importance of the questions of indebtedness, lack of materials and indemnity, which affect the problem of the currency—technical remedies cannot avail very much, but they do not lose all their significance. These proposals are put forward for discussion as a means of easing the difficulty.

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IV. ESTABLISHMENT OF AN INTERNATIONAL "VALUTA" ASSOCIATION [IVA].

Summary of the Proposal put forward by the Swiss League of Free Economy.

1. Countries desiring to join the International Currency Stabilisation Association (International Valuta Association "Iva") adopt the "Iva" unit of currency standard.

2. This new unit is not static (substance), it is dynamic (action). As the result of a continuous active currency policy it can only remain a fixed quantity as long as that currency policy keeps it so.

3. The currency policy of the Iva countries is based upon the absolute currency standard.*

4. The statistics of prices required for the absolute currency standard are recorded on a unified system by all the countries of the Association.

5. An active currency policy with the absolute currency standard as aim depends upon the quantity theory of money, upon the fact that if the general level of prices fluctuates, it can under all circumstances, even in time of war, be brought back to a starting point by an increase or decrease of the supply of money.

6. The monetary systems of the Iva countries remain national, but are based on unified principles, valid in all circumstances and for all stages of development.

7. This unified national currency policy removes the chief cause of disturbances in the balance of trade and of the resulting fluctuations of the exchanges.

8. Small disturbances in the balance of trade, caused, for instance, by the varying yield of harvests, are still possible.

9. To eliminate completely the effect of these disturbances upon the exchanges, a special international note is issued, guaranteed by all the Iva States, which is imported and exported without hindrance by all the countries of the Association and is recognised by them as legal tender at par with the national currency.

10. This international note is issued at a centre—the Iva Office at Berne—to the countries of the Association and under their supervision. The notes are issued free of cost, except for the expense of printing and administration.

11. The quantity of Iva notes is determined solely by their regulating effect upon the exchanges, about 20 per cent. of the national issues being required for this purpose.

12. For the amount of the Iva notes issued to each country, the Iva Office at Berne receives a cheque (or bonds) payable only in case the country, by mismanagement of the national currency, resulting in a permanent adverse balance of trade, has forced the export of all its Iva notes, Iva notes being only obtainable on payment of an agio.

From the date of this occurrence the cheque bears interest.

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* In his writings Dr. Christen defines absolute currency standard as the equilibrium between the supply of money and the supply of goods (the constant general level of prices) resulting from an active currency policy with this aim.

13. The Iva notes are issued in a denomination especially suitable for retail trade. Want or superfluity of the notes is therefore felt immediately, and the national financial policy comes under public control.

14. It is in the interest of the countries of the Association to take the measures necessary for keeping the Iva notes in circulation at par with the national currency.

15. For this purpose national notes are issued when Iva notes are flowing into the country, and national notes are withdrawn when Iva notes are leaving the country.

16. If this international currency policy, undertaken in the interest of the Iva note, leads to an appreciable and lasting discrepancy with the absolute standard (see paragraph 3), an international investigation is instituted by the Iva Office to discover the cause of the disturbance and to issue to all the countries of the Association the directions necessary for its elimination.

17. To exclude the influence of the cost of transport (import and export) of Iva notes upon the exchanges, this expense is borne by the Iva Office.

18. The expense of administration is divided among the countries of the Association in proportion to the amount of Iva notes issued to them.

19. Any non-European country observing paragraphs 1 and 9, and basing its currency standard on the absolute standard, can join the Association and will then receive the usual amount of Iva notes (20 per cent. of the national issue).

20. A country can leave the Association at any time on redemption of the cheque or bonds mentioned in paragraph 12.

21. The Association could be dissolved by cashing the cheques made out to the Iva Office and destroying the Iva notes so recalled.

V. THE ISSUE OF AN INTERNATIONAL LOAN

By Mr. F. A. VANDERLIP, Chairman, Banking Committee, New York Chamber of Commerce.

(*Extracted from "What Happened to Europe"*).

Fundamental Principles.

. . . It would seem that any successful attempt to finance the rehabilitation of the Continental nations must keep in mind the following fundamental principles:

(1) The European situation must be treated as a whole.
(2) The amount involved is so large and the element of time so important that it is extremely dangerous to undertake the legislative programmes that would be necessary before lending countries could place their Governments in a position adequately to participate in a loan to the several borrowing nations.
(3) There are the most important considerations pointing to the desirability of accomplishing the necessary financing at a moderate rate of interest.
(4) The political situation is so involved, and the financial conceptions so various and chaotic in the different countries, that it is highly desirable to present one formula for obtaining credit which all the borrowing countries should alike follow.
(5) If private investment funds are to be promptly and successfully attracted at moderate interest rates, there must be created an obligation that offers the highest type of security that it is possible to create.
(6) As the total aggregate of what each borrowing nation would believe was a minimum required for rehabilitation of its industries would reach a sum too large to be contemplated in any proposed plan, the lenders should determine, based upon a study of the necessities of each nation, what the apportionment of any proposed loan should be among the several nations.
(7) An independent judgment arrived at in the light of the representations made by each nation of the minimum necessary to start industrial production would present a sounder program than would result if each individual nation were merely given a financial credit and left free to work out the expenditure of that credit as it saw fit.
(8) In view of the urgent necessity for restarting the industrial processes, a necessity paramount to any merely financial requirement, the entire proceeds of such a loan as is herein proposed should be realized by each borrowing nation in the actual form of food, clothing, fuel, machinery, raw materials for manufacture, and rolling-stock for the rehabilitation of transportation; and none of the proceeds of such a loan should go into the treasuries of the borrowing nations to be used for governmental financial needs.

In view of the foregoing considerations and of the suggested principles that should be embodied in any comprehensive scheme, the following is a plan for an international loan, to be participated in by the United States of America, the Netherlands, the Scandinavian countries, Switzerland, Japan, those South American countries which are important exporters to Europe, and Great Britain, although the latter to perhaps a limited amount, if British interests so desired.

An international Peace Loan.

The Governments of the lending nations each should appoint a consortium of bankers, to have charge in the respective countries of the flotation of an international

loan of a certain amount. These consortiums of bankers, in conjunction with their respective Governments, should each appoint members of an International Loan Commission, the headquarters of which might well be in the Peace Palace at The Hague; and the number of representatives of each country respectively, or their voting power, should be equitably determined.

The Loan Commission.

The International Loan Commission would determine, from the facts regarding the industrial situation in each of the possible borrowing countries, the proportionate allocation of parts of the total loan to each borrowing nation; and later should determine, in conjunction with representatives from the borrowing nations, the definite amounts of machinery, raw material, rolling-stock, etc., which should be furnished.

Each lending nation would furnish, according to its capacity, an amount of machinery, raw materials, etc., equal to its amount of participation in the international loan, with adequate safeguards insuring to the borrowers that these materials were furnished at proper prices.

The International Loan Commission would propose to the borrowing nations that they would furnish to them credits to the determined amounts, to be expended in the way provided, against obligations that in the case of every nation followed the same formula. The obligations would run for, say, fifteen years, bear x per cent. interest, provide for amortization of one-fifteenth each year, and be repayable, interest and amortization, in the currencies of the various lending countries in the proportion in which the obligation was at the time of each interest payment actually held by the nationals of such country.

Each borrowing nation should pledge a first lien upon its customs revenue to meet the interest and amortization service of that portion of the international loan allocated to that particular nation.

Issue of obligations.

The International Loan Commission would issue for sale to the investors in each loaning nation its obligations secured by the obligations of the several borrowing nations. The interest charge on the obligation of the International Loan Commission would be the first charge against all the income received by the Loan Commission from all of the borrowing nations. If one or more of the borrowing nations defaulted in the first years of the contract, the International Loan Commission could devote such part of the amortization funds received from the other nations as might be necessary to the payment of interest on the International Loan Commission's total outstanding bonds, and any such depletion of amortization funds could subsequently be made good, when the defaulting nation made good its overdue obligations. The result of this would be that, even in the event of a nation defaulting in its obligations to the International Loan Commission, the full interest payments would be kept up on the obligations issued by the International Loan Commission, and time would thus be given to any defaulting nation subsequently to make up this default. If it were unable to do that before the final maturity of the loan, the loss would then make itself manifest in a deficit in the ultimate final payment of the principal of the International Loan Commission's obligation.

Each borrowing nation would undertake to lay sufficient import duties to provide ample for its obligations to the International Loan Commission. The obligations would include in addition to the interest and amortization of the original loan, the proper expense of the flotation of the International Loan Commission's obligations, and the expense of the International Loan Commission up to the final discharge of its obligations.

Any borrowing nation finding itself in a position to liquidate its obligation to the International Loan Commission in advance of the maturities of those obligations, and desiring to do so, would be permitted to liquidate those obligations at, say, 102½.

The point may at once be raised that some at least of the borrowing nations would raise objection to pledging a first lien on their customs receipts. If such a proposal were made individually to separate nations, that objection might be insurmountable. The difficulties of the situation are so great, however, that nothing short of a prior lien obligation would offer sufficient security to warrant bankers going to the investment public with an obligation for the industrial rehabilitation of Europe; and if all of the borrowing nations were asked to follow the same formula, the political objections would be far less serious than if an attempt were made to induce Governments one at a time thus to grant a priority lien. Any Government that found itself in a position to finance on more favourable terms subsequently could relieve itself of this pledge of revenue by redeeming its obligations to the International Loan Commission at a moderate premium.

Possibility of rediscounting indemnity claims.

The plan which is in the mind of many of the financial officials of the borrowing Governments, to rediscount their expected indemnity claims against the Central Powers, is one which will find little favour among investors. The investors of no lending nation will be disposed to put themselves in a position of collecting this indemnity from either an impotent or unwilling power. If the indemnity is paid, the obligation which it is proposed to secure by putting up the indemnity as collateral would be paid. If it is not paid, the task of collecting it is not one that any thoughtful investor will voluntarily become involved in.

Nothing in the foregoing plan, however, would prevent a nation from rediscounting the indemnity obligations which it might secure if it desired to do so and could find a lender. Nor would the granting of individual commercial credits be in any way curtailed. Individual commercial credits will eventually perform a most important function, but until the preliminary work of getting industry started in all the countries has been undertaken, there is a lack of security in all individual commercial loans, without regard to the wealth of the borrower, because his total wealth may be subject to depreciation or extinction by revolution. That is why I believe the first step should be the comprehensive one of furnishing the minimum necessary to restart industry in all European nations concurrently.

VI. THE INTERNATIONAL FINANCIAL PROBLEM.

By M. Carl Thalbitzer, Editor of *Finanstidende*, Copenhagen.

Hereunder is sketched out a plan for the financial restoration of Europe which is set forth in the most concise form in order to draw up clearly its principal lines. After having defined precisely five fundamental principles that should be kept in view in considering the subject, it is examined whether so far, practically, any signs indicating a solution of the problem have been visible, after which I propound the scheme that to me seems feasible.

I.

Capital must be rationed.

1. Gradually, as the inflation in the various countries ceases and makes room for a limitation of the means of credit and payment, the money markets will tighten. Everywhere there will be a scarcity of capital, and even the wealthiest countries, like the United States of America, England and Japan, will feel the pinch.

Consequently, no individual State will be able, in the near future, to furnish sufficient capital to meet all demands, nor can this be done by any coalition of States.

But even if it were possible, by means of an international loan, to produce any such capital it would only contribute to raising enormously the price-levels unless there existed a corresponding quantity of articles of value (in the shape of raw materials, foodstuffs, yields of labour, etc.), which is not the case.

Consequently, restoration of the world's production must take place step by step gradually as production is increased and consumption lessened, and *capital must be rationed*. A system that provides for a just and equable distribution among the countries of the capital available at all times will prove more serviceable to the world's management than any credit of milliards.

Exchange of equal values essential to permanent improvement.

2. The suffering communities have been helped after the war mainly by charity or by the bargain sales of their movables to the rich countries. Such a help can only be quite temporary, and no lasting arrangement can be built thereon. Only an arrangement emanating from the principle *do ut des*, in other words from reciprocity, may achieve that.

Consequently, any financial arrangement made should rest on a sound business agreement, on an *exchange of equal values*, either goods for goods or goods for services rendered.

Political considerations important.

3. In deliberating on the help to be given to needy countries, *not only financial but also political considerations* will come forward. If one country is finally set up before another is considered, the former will have the benefit of a favourable start, politically, even if at the same time it is enabled to fulfil its obligations to others, thereby contributing particularly to the restoration. For that reason also it will be proper to control the giving of credit.

The need for guarantees.

4. How a State will proceed to restore its own money and its own financial concerns may be considered as a matter with which other States have nothing to do. Only in cases where a credit is obtained abroad for the purpose of saving the country from a threatening collapse does it become necessary to procure *guarantees* so that the artificial increase of the country's purchasing power shall cease, and that production shall be urged on by all means. Not until the measures required in that respect have been taken may the granting of credit take place.

Existing means of credit must be respected.

5. In establishing, eventually, new institutions for furthering international intercourse care must be taken that *no needless competition* is inflicted upon the existing banking system, and also that no new needless means of credit and payment are created.

II.

Existing temporary expedients.

Keeping in view these five principal propositions and endeavouring, based on them, to find some method of improving the financial distress that exists in Europe, one should cast a glance at the new formations already come into being as a makeshift out of the difficulties. There are two that strike the eye particularly, *barter* and "*refining credit*." Both comply with the before-mentioned conditions and have grown forth organically, still without any possible chance of reaching a greater development while conditions remain as they are.

(i) Barter.

Barter has at all times constituted the principal form of international trade, and while a finely ramified system of credit existed between the countries it could develop into a high degree of perfection, absolutely untrammelled. But now when the conditions of foreign exchange have become chaotic, and production and trade are disorganized, barter has assumed the most primitive form of a direct exchange between two countries of their products. Thereby it is confined to narrow limits, as Europe's needy countries have but very small supplies for export, lack the means of getting into direct touch with the oversea countries, and are only able to buy articles of absolute necessity. As between indigent countries, barter is only possible where both countries have articles of necessity to dispose of and where the means of transportation and public security permit.

For the rest, barter fulfils the before-mentioned conditions, is based mainly on the *do-ut-des* principle and requires no credit, or hardly any, for its financing.

An extension of the framework for this form of trade must be aimed at, so that a compensation of goods may be established not only between two but between various countries. This would promote production greatly, though slowly and inexpediently.

Through an international medium, barter should be capable of a large expansion, as hereinafter set forth.

(ii) "Refining Credit."

The refining credit is apparently a new invention, but differs in reality very little from the methods of financing that have always been employed, when the capital of one country is invested in the industrial life of another country. It may be said that the refining credit is a special form of industrial barter where the two values to be exchanged are raw materials for work performed. It offers, however, much larger possibilities of development than the ordinary compensation of goods, as Europe's needy countries have a

surplus of labour, while several oversea countries possess larger supplies of raw materials than their own industries can utilize. It is a question whether an extended use of a refining credit will not be met with political opposition in the credit-granting country, partly because it may mean competition with its own industries, partly from the labourers, as these will protest against the utilization of the cheaper labour of another country at their expense.

For the rest, the refining credit fulfils, like barter, the before-mentioned conditions, and the financing required may probably, in most instances, be managed by the existing banks. But to advance it, it would be expedient to create an international legal protection of refining credit and to establish an international medium for its furtherance, if need be.

Co-operation essential.

All efforts to restore the world-circulation maintain that solid co-operation between the countries will be necessary. Without some joint *modus vivendi* no plan can possibly be carried out. But there is this weak point in every proposal, as it cannot be expected that any State, especially after a war so bitter as the one now ended, shall put aside its own interests for the common good. For that reason also *no proposal of a loan transaction entailing large sacrifices from anyone is advisable.* Every plan will, as stated, be limited by the number of articles of capital existing in the world, and the aim must therefore be rather to find the best way to distribute and utilize the supplies of capital than to create a new artificial purchasing power for them.

The countries may be divided into the healthy and the sick, and as regards the former a simple release from restrictions and control would undoubtedly quickly produce perfectly good conditions. But the same applies to them all, that the inflation and the influence of the sick States have created social unrest, uncertain rates of foreign exchange and increasing prices of commodities to such an extent that *a joint arrangement* becomes an urgent matter of necessity to escape from a further extension of the troubles. The presence of one or more mediums for taking care of the common interests then seems indicated, and in that respect *the following plan* may be submitted.

III.

Proposal to ensure joint action.

There is to be established *a double system of clearing-houses*, one to develop trading between the countries, partly in the shape of barter, partly by means of refining and other credits, the other system to create a financial standard for facilitating the international account-settling; both systems to be under the direction of the League of Nations and to have their headquarters, for instance, in London and with branches in every affiliated country.

A Goods Clearing-House.

The goods clearing-house would have the task of receiving from the Governments of the countries statements showing which goods they can offer and which they require. It will often be the case that a country may produce an article provided it gets raw materials or concessions of various kinds, or it may produce the article when from different places material or means of

transport are placed at its disposal. The clearing-house should be a Central where the connections could be made, and where, in the event of the world's supply being insufficient, a rationing could be undertaken. In respect of commodities like coal and cotton, the task would entail great difficulties and might easily assume a mainly political character, but within reasonable limits the management would understand how to solve the problem. This clearing-house would to some extent resemble an exchange, where it might be permitted the parties themselves also to make agreements, the general principle to be everywhere that the management of the clearing-house should interfere only in such cases where it was found impossible for the countries to arrive at a commercial arrangement by their own mutual initiative. Further, the clearing-house should only take hold of matters referred to it by the State Governments or by organizations recognised by them.

Through the head office and the local branches, or between the branches among themselves it should thus be possible to arrange an exchange of a series of wholesale articles, without granting any extensive credit. In fixing the pricee very country would naturally use as a starting-point its own currency, but when several States were to take up some problem jointly it would become necessary to establish *an international unit of account.* Again, it would be impossible to avoid differences in making payment which would necessitate a certain, though limited, credit-arrangement.

A "Bank of the League of Nations."

Partly for use in such cases, and partly to facilitate the granting of refining and other credits where the existing banks cannot offer their services, a Giro-bank should be established under the name of the *Bank of the League of Nations.*

This bank's principal task should be to maintain the par value of an international unit of account in its relation to gold.

Its second task would be to issue international bonds free from interest, payable in the unit of account.

Its third task would be, by means of these bonds and other means at its disposal, to grant credit on the recommendation of the goods clearing-house.

The bank would have a head office and a number of branch offices. The present national banks would act as branch offices in the various countries. Between all these banks a giro-system would be arranged, employing the international unit of account. This unit of account would be called *League* (of Nations) and would correspond in value to 1-1000 kg. gold.

The bank's funds would consist of a capital to be assessed on all countries concerned, thus *also on those in need*, in proportion to their population and national capital. Pursuant to what has been sketched herebefore it should not be very large. It might be paid in cash, either in gold or in currencies at the rate of the day, whereafter the owner would receive a share certificate in the bank entitling him to a share of the bank's eventual surplus. Or it might be paid in yearly rates. In that case the debtor would pay to the bank 7 per cent. annually of the original capital, 5 per cent. being interest on the balance of the debt and the rest reducing the debt (full payment thus being made in about 26 years) while he would be a shareholder for the amounts actually paid into the bank.

The bank's means would thus be the amounts paid in and the annual instalments, but besides that the bank would, as stated, have the right to

issue bonds free from interest to an amount *equal to the part of the funds not yet paid up*, and for which the States concerned would be liable, jointly and severally, each in proportion to its due share.

These bonds all the banks of issue of the states participating would be entitled to use for covering their domestic note circulation, as with gold. Legislation to that effect to be passed by the Governments concerned.

Features of the Proposal.

The special feature of this proposal is that it creates a gold-pool, artificially, it is true, by the issue of a new circulating medium, the League Bond, that produces a dilution of the world's gold supply, but the idea is to keep the bank funds mentioned as small as possible, and not to allow the bond issue to exceed the unpaid part of the funds. As the payments to the funds would increase automatically year by year the number of bonds would be reduced correspondingly, and they would all be retired after 26 years at most.

But there is also to be considered, and that is of most importance, that such an arrangement would make it possible to improve the currency in all the countries in need, whereby the general world's inflation would cease of its own accord and be replaced by a deflation or a stabilizing of the currencies. Compared with that the bank's "gold inflation" would be very insignificant.

If the bank funds were kept within a proper limit, not exceeding 500 million leagues, for instance, their procuring would not make large demands upon the States participating, and there would be no difficulty about placing the bank's bonds. Assuming that the world civilisation may be saved from destruction, altogether, it must be considered probable that the par value of these bonds could be fully maintained. If only the greater part of the yearly rates came in, what can hardly be doubted, the bonds would soon be drawn out, and besides, as they bear no interest, they would not likely appear in the market, but would remain in the banks of issue as part of their stocks of gold.

The bank's management would be elected by the League of Nations, which would be its highest authority. The bank would be owned by the shareholders, but would pay a tax to the League of Nations, that would also decide when it should be done away with.

VII. ESTABLISHMENT OF A "REGIE-FINANCIERE" UNDER THE LEAGUE OF NATIONS.

BY M. R. HOFMAN.

Obstacles to a return to normal Exchange rates.

In view of the Amsterdam manifesto, it would be superfluous to affirm that the only remedy for the depreciation of certain Exchanges is to be found in an improved balance of trade and consequently in the expansion of exports. At the present time it would appear to be far more useful to ascertain if this advice can be followed and, if not, what the obstacles are.

If the belligerents, in consequence of the break in the equilibrium between their purchasing power at home and their ability through their currency of disengaging themselves abroad, do not at the present moment feel the full weight of their debt, and the situation at times even favours their exports—the position will change once the depreciation of their currency at home and abroad comes to be stabilised. Such stability will be attained reasonably soon, and the social unrest which must inevitably follow in its train is everywhere in evidence. Stability, once it has been assured, must cause war loans to weigh heavily upon the export-trade, the volume of which will be continuously checked by every improvement in the currency. *For a rise in the value of money actually entails a proportionate increase in the debt charge.*

As an illustration of this, it may be pointed out that in 1914 the French budget of Fr. 5 milliards, with a revenue estimated at from Fr. 25 to 30 milliards, did not weigh an ounce less heavily on the taxpayer than the budget of 1920, amounting to Fr. 20 milliards, with an actual revenue of Fr. 110 to 120 milliards in depreciated currency. In both cases the charges amount to 17 per cent. Although the currency rises, the national debt remains the same, but the revenue diminishes quantitatively, and thus the tax-charges increase accordingly. What applies to France must necessarily apply still more to States with an even lower value of currency.

But, since in the end countries exchange goods for goods, it follows that, where a group of nations is no longer in a position to export under normal conditions, the imports shrink in proportion (as is instanced by the Russian money-crisis and the work of de Witte). In this way a country whose exchange is at a discount and a country whose exchange is at a premium have a common interest in finding means of avoiding a crisis which entails equal sufferings on both.

Effects of depreciation of Currency.

Before considering what the nations can attempt to do conjointly, it is necessary to establish some of the most important consequences of the depreciation of money.

From the industrial, commercial and banking point of view, its effects are an increase in salaries, social disorders, and an insufficient turnover of capital entailing a decreased output.

From a social point of view: a rise in the cost of living, a disproportion between material values and tokens of value, *the consolidation of wealth which was acquired during the war, to the detriment of pre-war savings.*

Its Dangers.

We shall give only the main outlines.

All these changes cannot but react unfavourably upon the social equilibrium and the civic peace which is essential for the work of reconstruction.

If it proves impossible to check the depreciation of currency in countries whose exchanges are impaired, the social crisis from which they suffer can only become more acute. It is therefore futile to favour a fall in the currency

of countries which have a high rate of exchange, for this would not improve the conditions of the former belligerents in any way, but only furnish the nation which remained neutral with fresh grounds for discontent while at the same time tending to perpetuate and augment the hardships under which pre-war savings suffer in the non-belligerent countries.

In order to remedy the situation we must, therefore, only take into consideration the various measures recommended, such as the direct inflation of currencies, or the indirect inflation caused by large international loans, bonds, or negotiable values.

A return to the gold standard necessary.

Although the gold-standard is not beyond criticism, it constitutes at this time the only possible safeguard against monetary chaos, which it alone can arrest. Our aim, therefore, cannot be the levelling down of values through depreciation, but must be a progressive return to the gold-standard. It is only by returning to a healthy monetary system that we can eliminate one of the factors of the rise in prices—the depreciation of currency—and arrest the otherwise inevitable growth of social troubles.

Inter-Treasury credits must cease.

Political economists and financiers agree that the era of inter-treasury credits has come to an end. Credits have had but a passing effect upon the exchanges, entailing heavy burdens. Neither debtors nor creditors can abstain absolutely from the well-known tactics against which Spain had to struggle at a critical juncture in her monetary policy.

War debts.

Let us now consider what the war debts actually represent.

The assets of a country mainly consist of actual goods and labour-capacity the value of which remains constant no matter what is the standard by which it is expressed. The relation between the assets of various countries remains the same so long as nothing supervenes to destroy the goods or diminish the capacity of labour. This does not apply to debts which, expressed in terms of money, are subject to its fluctuations, and increase in importance with a rise in money values.

Influence of the Exchange rates on the value of the above.

Nearly all belligerent countries have borrowed in a depreciated currency, and it would not only be unjust but positively illusory to expect them to repay in a sound currency. The depreciation of national standards has followed a fluctuating course according to times and countries, therefore in order to ascertain the exact liabilities of a given country upon an international basis, it is necessary to have recourse to a uniform standard, the stability of which has been proved during the period under review. We consider that the Swiss franc may serve as a standard for this purpose.

Illustrations.

The first five French Consolidated Loans represent a nominal debt of 95.2 milliards of francs which has only realised 50.462 milliards of goods and services as expressed in the international values as measured by Swiss francs (*vide* Annex I). The first nine German loans represent a nominal debt of 100 milliard marks or 123.5 milliard francs which realised only 86.5 of goods and services as expressed in the international values as measured in the same way.

At the present rate of exchange (April, 1920) the five French loans represent a nominal value of 27 milliards expressed internationally in terms of Swiss francs. The first nine German loans do not exceed 12 milliards if expressed in Swiss francs as an international standard instead of 123 milliards at par.

Depreciated currency benefits the debtor.

It goes without saying that under these conditions the two countries have every interest in maintaining a depreciated currency for meeting their debt, but in that case it is absolutely impossible for them to secure that assistance which in 1871 so swiftly restored France.

M. Léon Say, following Lord Goschen, demonstrates how the consolidated funds, which constitute a mortgage upon the future output of a nation, may serve to balance a national budget in times of crisis such as this.

If all the loans issued by France (of a nominal total of 95 milliards) be added to all those issued by Germany (of a nominal total of 123.5 milliards) these, if pledged for credit, would at the present rate of exchange (April, 1920) command no more than 33.5 milliards, of Swiss francs. Theoretically speaking, the lender would prefer to acquire all these bonds for 33.5 milliards of Swiss francs, believing it possible that the two countries might by a wonderful effort so retrieve their position as to enable him when the bonds fall due to receive 220 milliards Swiss francs upon the return of the exchange at par value. The mere mention of such a transaction serves to show, if not the inherent iniquity of the operation, at least (and above all), the impossibility of ever seeing it realised in practice.

On the other hand, the holders of French rentes on the basis of an international standard at present lose 27 milliards of Swiss francs (50 milliards representing the amount paid up and 23 milliards the present value). The holders of German loans lose 76 milliards of Swiss francs (86.7 representing the amount paid up and 9.7—10.7 milliards, their actual value).

The question of writing down debts.

Some economists who are alive to the position we have described have thought it necessary to favour some sort of agreement to write off a given proportion of all debts. We hold that the first economic action of the League of Nations could not be to counsel its Members to commit a breach of their engagements. We believe that its position compels the League to regard obligations as permanently binding; rather it would be in our opinion in duty bound to prevent natives or foreigners from taking advantage of the letter of loan-contracts in violation of their spirit.

Before closing these general remarks, let us consider the effect of the inflation of currencies. Inflation has a swift psychological effect on the rate of exchange, but this temporary moral effect is not proof against a final balancing of accounts. Inflation, on the other hand, reacts directly, although slowly, on the interior purchasing power of a country's national currency; consequently with free competition and with a properly balanced budget, the basic value of each currency depends on the interior purchasing power of the currencies of various nations. Any international transaction must thus, for corollary, be accompanied by a reasonable deflation of the national currency.

We may recall that Colbert's Mercantile System which made money the basis of a nation's wealth, seems to have inspired the authors of the Versailles Treaty with inclinations, which the interdependence and economic solidarity of nations render totally unworkable. Money is only the vehicle of exchange, and if the latter is suppressed it will be impossible to recover the debts which the former is called upon to discharge.

The economic solidarity and interdependence of civilised nations are so great that, willingly or unwillingly, all must participate in the discharge of the war debts and in reconstruction. It is to be feared that in the case of automatic division the nations richly endowed by nature will make their supremacy over others heavily felt, and it is in order to avoid the fatal conflicts which may result, that we venture to set forth a project, supported by various general considerations of an economic nature.

We aspire in no way to effect an *immediate* recovery in the exchanges, for this would be, indeed, an impossible task, but will confine ourselves to indicating measures which would make for a progressive and (comparatively)

very speedy improvement, and would then, and then alone, make possible the revival of International Credit, so indispensable to the recovery of these countries which are at present paralysed.

Proposals.

We suggest :—

(*a*) The revision and conversion into Swiss francs of all war debts, the amounts agreed to as due for reparation being fixed in Swiss francs.

(*b*) The creation of a *Régie financière* under the League of Nations, primarily to deal with the amortisation of the amounts owing for reparation.

(*c*) Economic principles to be the basis of all understandings between countries who are parties to the *Régie financière*.

(*d*) The creation of guarantee syndicates for raw material credits.

(*a*) *Revision and Conversion of War and Reparation Debts.*

Estimate of war debts.

If we go by the figures (which may since have been modified) given by Dr. Jôhr, Director of the "Crédit Suisse," the war debts incurred by the end of 1919, reckoned in francs *at par value*, were as follows :—

	Milliard francs.
Germany	177,641
America	147,169
England	180,531
Austria-Hungary	74,152
Belgium	15,613
France	146,346
Italy	64,255
Total	805,707

to which would have to be added the debts of the Balkan States: Bulgaria, Serbia, Montenegro, Turkey, regarding which we have no figures.

Merely for the purpose of establishing a basis for our calculations, we propose to take the sum of 200 milliards of *Swiss francs* as the amount required for reparations, this burden having to be shared by Germany, Turkey, Bulgaria and the States which formed part of the former Austro-Hungarian Monarchy.

We think it preferable to fix upon an agreed amount for the vanquished nations, however important the item may be, provided it be made subject to revision in the event of the first estimate proving too high. It is the prevailing uncertainty that alone stands in the way of establishing an international balance-sheet, and thereby renders ineffective measures which might otherwise be entertained.

At present all countries have to consolidate heavy floating debts, and if one wishes to avoid a universal depreciation of the purchasing power of the various standards, and also to avoid the social crises which must necessarily result, this consolidation should not be effected by renewed inflation but by judicious taxation of accumulated wealth—that is to say, of riches in the process of formation. The same should apply to the reparation-debts which come under the heading of fines, and should be made recoverable in annual payments.

The system of bonds provided for in the Treaty of Versailles, would deprive these securities of all international value, for the very reason that, the total amount not being known, it would consequently be impossible to compare them with the guarantees offered.

War debts should be converted into Swiss francs.

Calculated in Swiss francs on the basis of the average current exchange at the moment of issue, the debts of the above-named countries would work out as follows :—

	Milliards.	
France	116	(*Vide* Annex 1).
Germany	110	(*Vide* Annex 2)
Italy	28	Estimated at the exchange of 0.40.
Belgium	10	On the same basis as the French.
United States	147	At par.
England	160	At an average discount of 10 per cent.
Austria	24	At an average mean of 30 cents.
Total	595	

No change would be effected as regards national loan-issues or their conditions; it would be sufficient to stamp the bonds so as to indicate their value in Swiss francs.

Interest payable at Swiss rate of exchange.

The interest would continue to be paid in national currency, but at the Swiss rate of exchange. This procedure, applied by the State of Fribourg for its loan of 1907, gave complete satisfaction, and the holders of foreign rentes, in the belligerent countries, are now sufficiently accustomed to this kind of operation for it to be easily accepted by the nationals (of the countries concerned). Since at the beginning the people of the countries concerned will receive a little more than before (though not for very long), the measure will be easy enough to apply.

What matters to lenders and people with fixed incomes, as will be easily understood, is not so much the quantity of monetary tokens which their capital gives them as the amount of real benefit they obtain from it. As the currency ameliorates, the purchasing power of monetary tokens will grow, appreciably in the same proportion as the number of monetary tokens received by the people with fixed incomes will diminish. The operation is thus perfectly straightforward, and we cannot waste pity on those who were speculating on the misfortunes of their own or neighbouring countries.

The measure indicated would have no influence on the Swiss exchange.

National securities would become international means of payment.

National securities which, owing to the exchange and its fluctuations, cannot be used for the needs of the exchange, would thus, *internationalised*, become currency for this purpose, and would facilitate operations bearing on the improvement in the exchange, and on credit operations.

Moreover, the measures indicated in Annexes 1 and 2 would bring about an immediate improvement in the exchange in France, Italy, Germany and in those countries which make up the old Austro-Hungarian Monarchy.

By dividing as follows for the purposes of calculation, the sums due for reparation: Germany, 150 milliards; Austria-Hungary (States composing), 50 milliards—the war debts of the different belligerent countries would be as follows in milliards of Swiss francs :—

"Converted" debts per head of population.

	Milliards.	Swiss frs.	
France	116	that is to say 3,000	per inhabitant.
United Kingdom .. .. (Dominions)	160	,, ,, 4,000	,,
Italy	28	,, ,, 700	,,
Belgium	10	,, ,, 1,100	,,
America	147	,, ,, 1,470	,,
Germany	260	,, ,, 4,000	,,
Austria, etc.	74	,, ,, 3,000	,,

These figures correspond fairly well with the contributing power of each of the States mentioned (in Europe). It goes without saying that we are aiming less at an impossible exactitude than at explaining a system; nevertheless, we believe that we have made a fairly exact approximation from the proportional point of view.

The burden of annual interest would fall on the belligerent countries alone, the capital being liquidated by the financial "Régie," as we shall see from what follows.

The decreasing burden (doubly decreasing) of the interest of the war debts would fall on all the belligerent countries for 40 years at the maximum; that (also doubly decreasing) of the reparation debt would fall on the defeated countries for a further period of 12 to 15 years.

Improvements in exchanges will lighten debts.

The effects of the conversion which we recommend are such that *each rise in the exchange will lighten the weight of the debt* and render this rise desirable, and will recompense the efforts made, while in the *statu quo* any rise in the exchanges implies a further burden and discourages all efforts.

The case of Germany is even more striking. This country, as a result of the Treaty of Versailles, has a debt in internal currency and a debt for reparations, to be paid in gold. Germany can have no financial policy. If she raises her exchange, she lightens her exterior debt, but her internal debt is made intolerably heavier. If she keeps a low exchange, the situation is reversed; her internal debt becomes insignificant but then the fulfilment of her international engagements becomes a real impossibility. Such a situation does not favour sincere effort, and serves as a pretext for extreme parties.

(*b*) *Creation of a "Régie financière" under the League of Nations.*

It is not to be expected that nations burdened with heavy debts, most of them owners of great natural wealth, will not take measures to protect their industries, and to profit from their natural riches, in order to recoup from others the debts which they have incurred.

Whether in the form of customs duties on imports or exports, of freights, of transport charges, or of limited or total prohibitions, all these measures represent indirect taxation, weighing very heavily on consumers. The economic interdependence of nations will give rise to wrangling between producers, to agreements imposed on nations placed at a disadvantage by nature. The desire for hegemony, private and national selfish designs and industrial chauvinism, are all apt to create conflicts which will make an illusion of the League of Nations unless it has the power to remove such a source of discord as inequality of burden would prove to be.

The *Régie financière* which we suggest would be composed of an equal number of delegates from the participating nations, who would be entrusted with the amortisation of the War debts of *all* the Associates, and with the reasonable distribution, in accordance with the contributory power of the

various nations, of the burdens which, without the *Régie financière*, each country would seek to relieve on its own account, arbitrarily and to the detriment of universal peace.

Clearly, only an international Commission is capable of considering ways and means for procuring resources for the *Régie financière* itself, so that our task is limited to a statement of general principles. The *Régie* must in no case trespass on the prerogatives of national sovereignty; it should be conceived on simple lines and without a cumbersome international bureaucracy. Finally, its creation must be subordinated to the integral execution of Article 23 of the Covenant of the League of Nations. In Section (*c*) below is given, for information, a summary of some of the fundamental conditions implicit in the Covenant.

Draft project of a Régie financière.

We venture to append, purely as an indication of possibility, an outline of a *Régie financière*, in order to show that such an organisation is not a mere Utopia, and that a system could be found suitable to the conditions above enumerated.

In what follows we limit consideration to general principles and, with a view to simplifying the task, we have taken the figures of the following countries only: France, Great Britain, Italy, Belgium, United States of America, Germany, the component parts of the former Dual Monarchy, Switzerland, Holland, Norway and Sweden.

Draft project of a *Régie financière*.

Obviously the participation of a larger number of States would considerably shorten the period of liquidation and, on the contrary, the absence of certain of those mentioned would lengthen it. But neither of the two alternatives endangers the scheme.

We consider that an economic bond, in addition to the political bond created by the League of Nations, is the surest guarantee of Peace between peoples.

International Taxes.

The *Régie financière* made up of an equal number of delegates from the nations participating, would liquidate the war debts of *all* those participating, and this by means of very small international taxes, levied on exports and imports, on some of the principal raw materials, and on alcohol, wines, beer, tobacco, transports *but excluding all alimentary products.*

Our estimates are intentionally based on values considerably lower than the present index-numbers, and the returns may be double in certain cases.

The debts, valued in Swiss francs, amount to about 605 milliards, plus 200 milliards for reparations (*see* Annex 3). The yield would amount to a minimum of 15 milliards annually (*see* Annex 4 and following) thus permitting the liquidation of 600 milliards in 40 years at the maximum, and that for reparations in 13 years. By means of a slight prolongation, it would be possible to liquidate in the same way the *Russian debt* in Europe and other irrecoverable debts.

The levying of the taxes introduced by the *Régie* would be confided to the already existing organisations in each of the associated countries, and, as no new organisation would be created, both expense and infringements of the sovereignty of the States would be avoided.

To be used for amortisation.

The sums obtained by the *Régie financière* would be used for buying *in the open markets* national rentes in proportion to the debts to be liquidated. This method would thus keep up the rate of these securities. For this reason the operations of the *Régie* would have no effect on the various exchanges. The securities bought would be placed in the file of each State and would cease to bear interest; they would not be cancelled, in order to be able to

put them immediately back into circulation in the case of an infringement of the Covenant by one of the Associated States. (See Appendix IV.)

(c) *Economic Principles (which form an integral part of the Covenant).*

Steps towards Free Trade.

Free trade is at present not only impossible, but would create certain injustices toward the devastated countries. Nevertheless, it must be considered as the future basis of relations between associates. The following are the measures which we recommend as a first step (we point out only the principal ones).

(1) Each State is free to establish its own Customs-tariff, it being understood that it must be uniformly the same for all the associates of the *Régie financière.*

(2) Unification of customs-specifications. The absence of such a measure would render the advantages of paragraph 1 illusory.

(3) The tariffs for rail, river or maritime transport, for transit and exportation, must never, between associated States, in any case be higher in any country than the lowest tariff allowed on internal traffic and exports for the same category of goods.

(4) The Associated States prohibit all dumping and all export-bounties, which are not exact compensation for internal duties, imposed on national production.

(5) The Associated States bind themselves to establish no export duties, and specially to ensure that the trade in raw materials is free, and that the prices for export (destined for associates) are in no case increased above internal prices.

(6) In order to give tangible proof of their desire to abolish progressively the economic barriers which render disputes between peoples more acute, the associated nations bind themselves to suppress all import duties (excluding those affecting the natural products of the soil) on manufactured articles of which the export exceeds the import during two consecutive years, or three years in a period of five consecutive years.

(7) Suppression between associates of all prohibitions on export, or other hindrances to trade, industry or banking.

(d) *International Credits for Raw Materials and Reconstruction.*

The measures previously recommended have been inspired by the desire to let economic processes follow their natural course. Our mediation is confined to removing artificial obstacles which might retard this progress. The problem of the supply of credits for raw material must be solved in the same manner. It is not advisable that the State, already heavily burdened, should grant a credit to Industry and Commerce, which are moreover anxious to safeguard their own independence. State control and intervention in these matters might give rise to certain expectations—might lead to political agitations which an international organisation must refuse to countenance.

The real solution seems to lie in the general application of measures which experience has proved to be efficacious.

If a merchant wishes to obtain credit from a bank, he does not hesitate, if necessary, to mortgage his property or plant, and we fail to see why this

method should not be generally applied in each country. Professionally or interprofessionally, guarantee-syndicates might be formed.

These guarantee-syndicates, in possession of fully backed mortgages of first-class value, for which all members will be jointly and mutually responsible with the whole of their property and plant, will be in a position to offer to banks or syndicates of banks sufficient guarantee for all loans, at short or long terms, of which the various industries stand in need. Factories, landed property, plant, etc., form a guarantee, unaffected by the depreciation in the country itself, of the local currency.

These guarantee-syndicates (the borrowers), on the Boards of which delegates of credit organisations (the lenders) will have a seat, will thus act as mediators between borrowers and lenders of different nationalities, and they will be able to avoid the errors which any other type of control would render intolerable.

In countries with a greatly depreciated currency, or in those where cash credits would be undesirable, the guarantee syndicates might act on a labour basis, in such a manner that remuneration is returned in the shape of raw materials. The experiments made in Switzerland during the war have shown the way in which this can be done. The method merely requires internationalisation in the interest of the *Régie financière* of the League of Nations.

APPENDIX No. 1.

FRANCE.

Loans in Milliards.

Dates.	Nominal value in French francs.	Actual value in gold standard.	Yield in French francs.	Yield in gold standard.	Rate.
1915	15.2	13.5	13,307	11,975	0.90
1916	11.5	10	10,082	8,771	0.87
1917	14.8	11,840	10,171	8,136	0.80
1918	30.7	23	21,743	16,300	0.75
1920	23	8	15,730	5,280	0.33
	95,200	66,340	72,033	50,462	

Average rate 0.70

The actual debts according to Dr. Jôhr (amounts expended) are therefore 146.346 milliards. To balance the account, if loans are issued on the same terms as before 74 milliards would be required, representing a nominal value of 100 milliards. We would recommend the issue on the basis of 0.50 Swiss francs. The bonds should be of 100 French francs endorsed to the value of 50 Swiss francs. This measure would have the effect of inducing foreign creditors to subscribe to the loan. The rate being 0.33 they would naturally prefer to take up bonds yielding interest on the basis of 50 frs. (Swiss). This would alleviate and consolidate France's private debts abroad and would have the effect of at once bringing back the rate of exchange to 0.50. French subjects would lose nothing as they would, on this basis, receive a coupon of exactly the same value as if the bond were not endorsed. Trade and industry would, by subscribing, be enabled to pay for foreign purchases in these bonds, or at any rate to open banking credits by depositing them.

APPENDIX No. 2.

GERMANY.

Loans in Milliards.

These loans were issued at about 98 per cent. of the nominal value.

	Actual yield in marks.	Rate.	Yield in gold standard.
1st Loan	4,480	1,17	5,241
2nd „	9,106	1,10	10,016
3rd „	12,162	1.09	13,256
4th „	10,767	0.93	10,013
5th „	10,698	0.92	9,842
6th „	13,122	0,79	10,366
7th „	12,256	0.65	7,966
8th „	14,766	0.85	12,551
9th „	10,432	0.70	7,302
	97,789		86,553

Nominal value ... ... 100 milliards.

The sums still to be actually consolidated amount to 80 milliards nominal value. We would recommend the conversion of this into Swiss rate on the basis of 0.30 (actual rate 0.09). Foreign creditors would subscribe for the same reasons as those given in Appendix 1, and the rate of exchange would at once rise to 0.30. The same advantages apply as were pointed out in Appendix 1.

APPENDIX No. 3.

DEBTS OF STATES PRESUMED TO BE ASSOCIATED IN THE "RÉGIE FINANCIÈRE," BASED ON THE FIGURES OF DR. JÖHR.

Expressed in terms of Swiss francs on the basis of Appendices 1 and 2, and estimated in other cases.

Nominal value at par.		Actual expenditure.	
146	France: ..	milliards of nominal Swiss francs	116
180	England ..	" " "	160
70	Italy ..	" " "	28
15	Belgium ..	" " "	10
10	Neutral States	" " "	10
147	United States	" " "	147
180	Germany ..	" " "	110
80	Austria-Hungary, etc.	" " "	24
828			605

In round figures, 600 milliards.

DEBTS ON ACCOUNT OF REPARATIONS EXPRESSED IN SWISS FRANCS.

	Milliards.
Germany	150
Austria-Hungary	50
	200

These figures are only taken for the purpose of these calculations, and are not intended to be accurate.

APPENDIX No. 4.

ANNUAL RECEIPTS OF A "RÉGIE FINANCIÈRE" EXPRESSED IN MILLIONS.

	Millions.
Tax of 1 per cent. on imports and exports	2,000
Port dues of 1 fr. per ton gross displacement	260
Tax of 0.01 per ton kilometre on goods	6,900
One per cent. on the gross receipts of postal, telegram, and telephone service	70
Coal, tax of 1 fr. per ton at the pit head	1,000
Iron ore (proportionate tax ?)	1,000
Tax on copper of 60 frs. per ton	46
Pure alcohol (90°) a tax of 0.50 fr. per litre	600
Tobacco, a tax on 15 frs. per quintal (cwt.)	150
Wines and beers, a tax of 1 fr. per hectolitre	380
Electricity 0.001 fr. per unit (estimated)	40
Travellers tax of 1 per cent. on gross receipts (to be estimated on the basis of 25 Swiss francs per inhabitant, rates for Italy to one-half)	100
Wool, cotton, silk, 1 per cent. of the value (calculated much below the actual price)	200
Millions ..	12,746
For the French Colonies, figures are lacking	For reference.
Super tax on imports and exports from and to non-associated countries, a rough estimate used only for the purpose of completing calculations	2,254
Milliards ..	15

The *Régie Financière* would impose a tax on imports and exports destined for or proceeding from associated countries. (This tax would be double or treble, etc., according to the decision of the commission established for the purpose.) This super-tax is required to balance the dues paid between associated countries, and would have the ultimate object of forcing non-participating countries to associate themselves with the *Régie*.

APPENDIX No. 5.

TABLE SHOWING TAXATION ON IMPORTS AND EXPORTS BASED ON THE FIGURES OF 1911—1912 (BOUILLOUX-LAFONT).

	Milliards.
France	15
United Kingdom and Colonies.	50
United States	22
Italy	6
Belgium	8
Germany	26
Austria-Hungary, etc.	6
Switzerland	3
Sweden	2
Holland	14
Norway	3
	155

According to the actual figures these amounts might be double ; we will however, be content to increase them by 20 per cent., which will give a total of 200 milliards at 1 per cent = 2 milliards.

In order to facilitate collection, a commission composed of representatives of the Associated States would fix an amount per kilo. expressed in Swiss francs for each class of goods, which the Customs Officials would levy at the same time as the National taxes. Accounts to be submitted to the *Régie Financière*. The amounts obtained would be used for purchases of rentes up to the amount laid down for each country. There would be no effect on the Swiss Foreign exchange because movements in and out would balance.

APPENDIX No. 6.

WOOL.

A tax of 1 per cent. *ad valorem* (the tax will be fixed in terms of Swiss francs per kilogram by a Commission composed of expert representatives of the Associated countries, and will, if possible, be estimated on washed wool, taxed at the source). This Commission will also fix the super-tax, for wool originating in non-associated countries.

	Production for 1911–12 millions of kilos.	Yield in millions of Swiss francs.
France	35	2
United Kingdom	55	3
Dominions	600	36
United States	134	8
Belgium	—	—
Switzerland	—	—
Sweden	4	0.3
Italy	9	0.7
Holland	3.5	0.2
Germany	11.6	0.7
Austria-Hungary, etc.	19	1.1
		52

COTTON.

Dominions	920	27
United States	3,072	100
		127
Silk (estimated value)		21

It is to be observed that these taxes do not really fall upon the countries mentioned, which only collect on behalf of the *Régie Financière* ; they are really paid by the associated importers as a whole. The producing country only acts as collector of the tax ; it is those who use the products who pay, and not the producing country itself.

APPENDIX No. 7.

Coal.

Table of taxation on Coal (statistics of Bouilloux-Lafont) based on the year 1911–12 and reduced by 20 per cent. in consideration of the disuse of mines in the North of France and the loss of territory suffered by Germany.

Tax of 1 fr. per Ton at Pit-head.

	Millions of tons.	Yield in millions.
France	40	40
United Kingdom	225	225
Dominions	50	50
United States	400	400
Belgium	20	20
Germany	190	190
Austria Hungary, etc.	40	40
Sweden	9	9
Holland	14	14
Norway	11.3	11.3
Italy	0.7	0.7
Switzerland	—	—
Approximate		1,000

I have not got the necessary figures for iron-ore, but a tax equal in yield could be imposed. There is no occasion to add that if Spain were to participate in the *Régie Financière*, collection would show a considerable improvement.

APPENDIX No. 8.

Copper.

(Statistics of Bouilloux-Lafont, a tax of 60 frs. per ton at the pit head.)

	Thousands of tons.	Yield.
France	13.5	0.8
United Kingdom	50	3
Dominions	84	5
United States	550	33
Italy	3.5	0.2
Germany	50	3
Austria-Hungary, etc.	13.5	0.8
Other countries	—	0.2
		46 millions

The same remarks apply as to Appendix No. 7.

No figures are to hand in the case of lead, zinc, tin, silver and gold, but a tax on these metals would also appear advisable.

APPENDIX No. 9.

TAX OF 1 FR. PER TON GROSS DISPLACEMENT.

Port dues.

	Yield in millions.	
France	34.6	
Colonies	—	(figures lacking)
United Kingdom (Dominions) ..	77	
United States	39	
Italy	27	
Belgium	14	
Germany	31	
Austria	8.4	
Sweden	10.6	
Norway	?	
Switzerland	—	
	258.2	(figures of 1911–12)

The shipping of the world has tended to increase since the war.

APPENDIX No. 10.

TABLE OF THE TAX PER TON KILOMETRE ON GOODS IN TERMS OF SWISS FRANCS, AT THE RATE OF 0.01 PER TON KILOMETRE, FIGURES FOR 1911–12.

(In order to obtain the number of kilometric tons the yield must be multiplied by 100.)

	Yield in millions.
Switzerland	15
Sweden	30
Holland	17
Norway	10
France	250
United Kingdom	400
Dominions	730
United States	4,400
Italy	100
Belgium	74
Germany	614
Austria-Hungary, etc.	252
	6,892

This tax could be replaced by the appropriation of an amount of x per cent. of the gross receipts. In the case of the United States the tax would have to be reduced, in consideration of the distance to be traversed.

It must not be forgotten that the taxes mentioned do not only affect the countries which collect them, but also include the transit and export. This explains the figures in the case of the United States (cotton) and the Dominions (wool).

APPENDIX No. 11.

Tax of 15 frs. per 100 Kilograms on Tobacco.

	Production in millions of kilos.	Yield in millions.
France	16	2
Dominions	430	65
French colonies	?	?
United States	432	65
Italy	8	1
Belgium	10	1
Germany	25	4
Austria	72	11
Approximate		150

Tax of 1 Swiss franc per Hectolitre on Wines and Beer.

Switzerland	3.4
Sweden	2.8
Holland	1.8
Norway	1
France	57.1
United Kingdom	57.1
Dominions	5.1
Etats-Unis	78.6
Italy	52.9
Belgium	17
Germany	69.8
Austria-Hungary, etc.	33.5
French Colonies (Algeria, etc.)	?
	380

That is to say, 380 millions of hectolitres.

APPENDIX No. 12.

Tax of 1 per cent. on Gross Receipts of Postal, Telegraph and Telephone Service (lowest estimate) Based on a Figure three times the amount of the Tax imposed on Telegraph and Telephone Service before Tariffs were Increased.

(These figures are not intended to be correct.)

	Millions.
France	3.3
United Kingdom	7.5
United States	40
Belgium	0.6
Germany	9
Austria..	2.4
Switzerland	0.6
Sweden	0.9
Holland	0.6
Italy	2.4
Norway	?
	67.2 estimate.

Tax on Pure Alcohol at the Rate of 0.50 francs per Litre of Pure Alcohol (90°), Statistics of Bouilloux-Lafont, 1911-12.

	Millions of litres.	Yield in millions.
France	223	111.5
Colonies	?	?
United Kingdom ..	111	55.5
Dominions	25	12.5
United States	250	125
Italy	20	10
Belgium	26	13
Germany	260	130
Austria, etc.	200	100
Switzerland	2	1
Sweden	20	10
Holland	30	15
Norway	16	8
		591

APPENDIX No. 13.

TAX ON THE PRODUCTION OF ELECTRICITY BY WATER POWER AT THE RATE OF 0.001 FR. PER UNIT (KW. HEURE). ESTIMATED AT 15 HOURS PER DAY.

(These figures are not intended to be correct as no official figures exist.)

	Millions of francs.	
Switzerland	2.5	
France	6	not including the Rhône.
United States ..	15	
Germany	6	including that part of the Rhine eventually to be added to France.
Austria-Hungary	4	
	34	

TAX OF 1 PER CENT. ON THE RECEIPTS OF PASSENGER TRAFFIC ON RAILWAYS, ESTIMATED AT THE RATE OF 25 FRS. PER INHABITANT, EXCEPT IN THE CASE OF ITALY, WHERE THE ESTIMATE IS 17.50.

	Rough estimate of gross receipts.	Yield in millions.
Switzerland	100	1
France	1,000	10
United Kingdom	1,000	10
Dominions	1,000	10
United States	2,500	25
Italy	700	7
Belgium	175	1.7
Germany	1,700	17
Austria	700	7
Other countries	500	5
		109

VIII. A CO-OPERATIVE CREDIT ASSOCIATION FOR GERMAN TRADE.

By DR. HANS JORDAN.

I. *The Present Situation with Respect to Obtaining Credit.*

Dearth of capital.

As has been pointed out in Under Secretary Hirsch's report on " forming and obtaining capital," it is at present extraordinarily difficult to procure working capital both at home and from abroad.

The demand for capital amongst the trading community is to-day very pressing. In the first place, the most important home raw materials, chiefly coal and iron, can in consequence of their hugely increased cost no longer be procured by means of private capital. As to foreign raw materials, their cost is made practically prohibitive by the fall of the exchange. Also many concerns are handicapped by foreign debts, which for the same reason have attained an immense total, which is still on the increase. Extensions and reconstructions, the latter increasingly urgent, run to very considerable sums, which cannot be covered by individual capital. There is still, however, in Germany, private capital in the process of formation, the rise of sale prices being more rapid than that of the costs of manufacture. But this capital is hidden and hoarded in the shape of notes and goods, or secreted abroad, for fear that it may be taxed to excess, socialised or confiscated, or for fear that present high prices may prevent it bearing adequate interest at a later date.

Foreign capital.

The prospects of obtaining capital from abroad are no brighter. In itself any capital supplied from abroad, be it a credit or a partnership, is bad for our balance of payments, but for better or for worse we shall have to put up with it. We ought to obtain such capital on a long lease, apply it to a deliberate purpose, and control foreign influence politically and economically. This, under present circumstances, is extraordinarily difficult. We obtain foreign capital when we do not want it. The considerable purchasing-power of their currency is used by foreigners to buy from us at absurdly low prices; in this country people wonder at the high prices the foreigners offer, and are induced to sell. Even when it is absolutely necessary to procure capital from abroad in order to obtain raw materials or to consolidate credits of old standing, it is impossible to do so owing to the completely disorganised state of our foreign relations.

Difficulties of obtaining.

Our paper wealth increases immeasurably. It rapidly flows Westward in consequence of huge sales of depreciated marks to cover legitimate and clandestine imports, or of the flight of capital abroad. This process, until the outflow is stopped, frustrates any attempt to stabilise the value of the mark.

This, and the so far unknown future claims of the Entente, render it impossible for foreigners to form an opinion of our credit.

Germany's recovery essential to Europe in general.

Theoretically, there is confidence abroad in our recovery. This appears from the fact that numerous foreigners, even officials, employees and servants ignorant of business, buy the marks, which are dumped abroad in anticipation of an improvement in their value. Foreign countries, therefore, quite apart from the question of Reparation debts to the Entente, are directly interested in Germany's recovery. This is indicated by the masses of marks now abroad. In addition, the Exchanges of all the late belligerents fall, and efforts to stop this fail because the so-called victors and the vanquished alike are economically exhausted, and confidence in them is shaken. The idea is gaining ground that all the European States, both neutrals and belligerents, are concerned in the reconstruction of economic conditions.

And to the U.S.A.

This was shown by the resolution of the International Exchange Congress at Amsterdam. It is very important for America, as a creditor of France and England, that these countries' capital should not be impaired by a final breakdown on our part.

In consideration of our hard-working population, our technically highly-developed mechanism for production, the personality of our leading men and our technical intelligence, we offer a very suitable field for investment to America, who is not only attracted by business offering rapid profits, but has also shown a liking for long-dated investments.

However, foreign—especially American—credits cannot at present be obtained for the following reasons :—

(*a*) Foreign countries, especially America, require capital themselves.
(*b*) Our balance of payments is not assessable.
(*c*) German private concerns do not offer sufficiently attractive guarantees in view of the above-mentioned facts.

II. *Means of Obtaining new Credit.*

Domestic Credits.

It is extraordinarily difficult to attract existing or newly saved capital. This cannot be obtained by State regulation. Even the co-operative accumulation of capital, as carried out in connection with the compensation fund of the nitrogen industry, the programme for miners' homes, and the handing-over of part of the proceeds of foreign trade, is not adequate.

Mutual Producers' credits.

The banks alone cannot help us, as they are fully occupied with their own liabilities. The only remaining possibility is that of an *agreement between the producing classes, for mutual credits,* the banks still dealing with the technical side of the business. The collaboration of the Reichsbank would, of course, also be necessary. The duties of a general co-operative credit association for home credits will be considered in detail elsewhere.

Foreign Credits.

The question of foreign credits is one of giving the foreigner such security as to overcome the objections or doubts alluded to above. The State cannot deal with this, as State intervention does not offer the necessary elasticity, and there is a danger that a Government organisation may be pressed into

service by the Entente for Reconstruction purposes. Also, the producing classes would have no confidence in State intervention, as they would fear measures involving socialisation or new taxation. The banks will have to continue to act as intermediaries for obtaining credit, and dealing with the technical side. The further collaboration of the Reichsbank is also necessary for the same reasons. But the banks, in consequence of their large liabilities and the guarantees demanded by foreigners, can no longer take up credits abroad, and hand them on to the producing classes. The producing classes should under these circumstances themselves offer the guarantees demanded ; this can only be arrived at by collaboration, as even an agreement between the various branches would be insufficient. Their separate plants and undertakings do not offer sufficient guarantees. All producing classes should be united in a *general Co-operative Credit Association in which every producer, working with money lent him, would be bound to make himself responsible for the liabilities of the Association, in consideration of which he would have a right to part of the credits obtained by the Association.*

Co-operative Credit Association

III. *Character of Producers' Association.*

Ways and means.

The exact character of the agreement to be made by producing firms is no easy matter to determine beforehand. The problem is a difficult and complicated one, and should be examined from every point of view. The main idea, however, is imperative and will therefore be carried through. The details of procedure are comparatively unimportant. Many different courses could be adopted ; but the main difficulties will always be found to be the same.

The following results have so far been obtained :—

General Principles, on which Association should be based.

1. Voluntary association.

1. The German producing classes will have to unite voluntarily. Only in the case of voluntary and independent organisations will foreign countries give the necessary credit ; besides which, it will be obvious to the producing classes that they can only save themselves by a common effort.

The obvious advantages of such an organisation are that it promotes unity. Only in the case of intractable persons outside the organisation would it be necessary to give the organisation the right of exerting compulsion by legal means.

2. Both trade and industry included.

2. Those concerned should themselves realise the useful purpose of this undertaking ; these credits should not therefore be limited only to certain classes of producers. Trade should also be included and given sufficient inducements. Agriculture must be provided with manure and fodder. If necessary, a distinction should be made in a way similar to that in practice for the delivery of coal, by which concerns whose demands must be met in order to allow them to satisfy others should first obtain credits.

3. The Association must be independent of the State.

3. In order to make sure of foreign confidence and thereby foreign credits, the private character of the organisation should be very strictly maintained. The organisation should not be entrusted with fiscal tasks or the economic functions appertaining to the State. Never would the proposal be even

considered by the producing classes if it were in any way combined with plans for State participation in German trade concerns.

4. The Reichsbank as intermediary.

4. State participation should also be avoided for fear of intervention on the part of the Entente. In cases where collaboration with State authorities is unavoidable, for instance, in the obtaining of foreign exchange through export in order to cover credits and the control of the import of the goods bought, separate agreements between the Reichsbank and the Imperial Commissioner for import and export on the one hand, and the Association on the other hand, should be arrived at. In this connection it should be noticed that the offices of the Imperial Commissariat dealing with foreign trade are already independent administrative bodies of our industry.

5. Foodstuffs must not be dealt in.

5. The obtaining of credits for foodstuffs is not part of this enterprise, for foodstuffs apply to all consumers, and foreign countries will not allow the producing classes credits for unproductive purposes. Only in as far as credits are used for productive purposes (*i.e.*, for the upkeep of workers and employees) should this organisation take part in them. It will be necessary to ascertain what percentage of the foreign exchange available from the export of coal and potash can be used for the general purpose of obtaining foodstuffs.

6. Special groups to be formed.

6. Part of the available foreign exchange will also be required to meet the liabilities of the Reichsbank.

In connection with the formation of the general Co-operative Association, leading groups amongst the industrial, agricultural, banking, and trade interests should first unite and by their initiative both inspire foreign confidence in the organisation and prepare the details of the future Union. The present Associations and bodies should as far as possible be utilised and organised in groups according to their nature. The obligations of the organisation rest on those of the groups which themselves find legal support in their Associations and finally in the separate firms. The groups should be made legally responsible so that they may themselves enter into legal agreements.

In this way, the whole of the producing classes should assume a guarantee for the punctual fulfilment of the liabilities arising from the reorganisation of the country, and the appeal for foreign credits. Contrary to proposals which imply the covering of foreign obligations by special classes of people, mortgages, debenture holders, property owners (Stave's proposal), thereby causing one-sided charges, the present proposal will make this charge common to all trades.

The General Association must be a legal person, and will issue its own bonds.

The groups would have to be united in a "General Co-operative Credit Association" possessed of legal personality. This organisation would hand over to foreign creditors both short and long-dated paper guaranteed by the German trade communities; in addition, the General Co-operative Credit Association could also arrange for the participation of foreigners in German concerns, either in the share capital or otherwise. This form of procedure is in many ways preferable, as it does not in critical periods lead to compulsory liquidation, and the owner of the partnership has a greater interest in the concern than the creditor. The political and economic control of the foreign capital flowing into Germany will be an important branch of the work.

These commercial bonds issued by the Co-operative Credit Association shall pay for exported and imported goods, and shall only be used for business

abroad; it shall be forbidden to make arrangements with foreign contractors in which this means of payment of the Co-operative Credit Association is excluded. The short-dated bonds of the Association owned by Germans shall be handed over to the Association. These short-dated bonds of the Association should bear 2 per cent. interest, so arranged that the interest in the course of a year is added to the nominal value and is at the end of the year repayable in gold or the currency of the particular foreign country concerned. These bonds shall mature in not less than a year.

The Co-operative Credit Association shall, independently of any reserves accumulated for the purpose, and in order to offer greater guarantees, first of all earmark annually those amounts in foreign currency or credits necessary in order to meet the interest charges on the means of payment in circulation.

IV. *Procedure of the General Credit Association.*

Organisation of purchase.

Individual professional traders would have to notify their trade-association of their requirements in raw materials. The administration, after due consideration of the possible output and financial standing of the various centres of production, would then have to revise these estimates and communicate the result to the General Credit Association. The purchase of the raw materials would then be undertaken either by agencies established for this purpose and affiliated to the various trades, or by individual members. The members of the trades would give their associations bills for the amount of raw materials purchased, which would, at the most, cover the period of time between purchase and manufacture. The associations would have to see to it that the bills are taken up in time, and secure the necessary cover from the parties which are granted credit facilities. The equivalent of all sales abroad and all claims on foreign countries must be reported and bills of exchange, secured through export, must be transmitted to the General Credit Association. To that end arrangements will have to be made with the Reichsbank and the Commissioner for imports and exports, or with the foreign trade centres, as the case may be. (A portion of the foreign bills must remain at the disposal of the State.)

The General Credit Association regulates the purchases of raw materials by means of bills on foreign countries, short-dated acceptances or other kinds of short-term commercial paper (that is to say, such as serve not only as a cover, but constitute direct means of payment). When a group purchases raw materials, it would give the General Credit Association bills for the amount and receive in exchange, according to means available, either foreign bills or short-dated acceptances. The Association distributes the raw materials among its members, receiving payment in the form of such bills, acceptances, etc., as will be taken by the General Credit Association as cover.

All foreign credits must be transmitted to the General Credit Association, where they are examined and disposed of. Where foreign credits arising out of this import and export of raw materials and goods are concerned, the existing law must be modified as regards the pledging of raw material by extending the right of mortgage to finished goods. The Imperial and Local authorities undertake to abstain from all regulation of foreign credit and to transfer it to the General Credit Association.

Long-dated paper.

Apart from the short-dated acceptances referred to above, the General Credit Association would also have to issue long-dated bearer bonds. The reason for this is that import can only be partially counter-balanced by immediate exports. Large-scale imports, primarily on behalf of agricultural interests, remain in the country, and for these the only possible equivalent is credit. This, the central Administration would obtain more easily on the basis of the conjoint liability of all trades than was possible in the past on the guarantee of individual members or even of separate associations.

The General Credit Association would have to be authorised to issue long-dated bearer bonds at fixed rates of interest which would be guaranteed by all professional traders and secured on their works and their output. Those bonds bearing from 6–8 per cent. interest would probably be taken by American banks because they would be able to recoup themselves by placing them with the public. A long-term dollar-loan of this description guaranteed by the banks would be calculated to replace the working capital required for foreign trade, and at the very least, reduce the banks' debit balances. Together with the short-dated acceptances and the bills secured by exports, our economic relations with foreign countries would be regulated and safeguarded.

Apart from the acquisition of raw materials, the General Credit Association would have to take in hand the liquidation of foreign liabilities already incurred.

In order to cover the expenses of the exchange operation, and of the administration, and to create a reserve and amortise the share capital, the General Credit Association would charge 5 per cent. on the value of exports and receive a commission of 1 per cent. on all bills or acceptances discounted. These terms would be subject to revision, if required.

V. *Organisation of the General Credit Association.*

Management.

The management of the General Credit Association would have to comprise the productive class in its entirety, employers and employees being equally represented. In the building up of the Empire, the local conditions would have to be taken into account by careful consideration of regional interests.

The management of the Association might be constituted as follow:

Board of Directors.

A board of about nine members, with a president and two vice-presidents, which would issue orders, settle business-procedure, superintend the carrying-out of its instructions and appoint directors. Further, there would be a directorate comprising a minimum of four persons under a director-general who would be *primus inter pares*. There would also have to be a Central Committee, comprising a maximum of 30 members who would be the representatives of the guaranteeing associations. But apart from the associations formed by the productive classes, another association would have to be established to comprise the employees. The Central Committee would have to comprise a sufficient number of representatives of the individual States, or, the case arising, of the different provinces. It would have to elect the members of the board, subject to confirmation by the Imperial Government.

Association of employees.

Finally, there would be the Plenary Assembly embracing representatives of all associations.

From "Plutus," Berlin, March 10, 1920.

IX. THE CREATION OF A GOLD NOTE.

By Dr. G. VISSERING, President of the Bank of the Netherlands.

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Depreciation of the Paper Crown.

The Austrian crown, which in accordance with legal regulations as the monetary unit of the Austro-Hungarian Monarchy represented 0·304878 grammes of fine gold, has sunk abroad to a level which is less than one-fiftieth of its old value. At home, the depreciation of the crown in respect of commodities has not yet advanced so far, but its value is very uncertain and it is subject to daily fluctuations.

Abroad, the crown is virtually no longer accepted as legal tender. At home, it is still the money standard in which the price of commodities or the value of services is expressed; but it can scarcely be accepted as a measure of value, seeing that it is itself liable to fluctuations. As no other measure of value exists, the crown is used as a makeshift, the public being hardly aware how inadequate it is for that purpose. Such a state of things is untenable. Austria, as far as her finance is concerned, is monetarily almost entirely cut off from international trade.

Legislation no Remedy.

What remedy is there? It can hardly be one provided by the law, for the law still stipulates that the Austrian crown must represent the value of 0·304878 grammes of fine gold, and does not recognise the paper-crown at all. In reality, however, the gold-crown has become a non-existent, imaginary unit of account, the circulation consisting only of notes which are deservedly named "paper-crowns."

The monetary system, therefore, cannot be improved for the time being, as its lamentable position is not the cause, but the effect of conditions of another order. Any improvement, therefore, must take the form of a systematic reform of these conditions.

This reform must extend in two directions:

Two Aspects of Reform.

Firstly: the further issue of State and Communal bonds must stop, except when they are wholly and immediately directed to the creation of useful commodities.

Secondly: In Austria, work must be resumed with the same eagerness as of yore, so as to create a surplus of useful commodities which can be exported abroad, thus securing payment media for essential foreign goods.

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The first-named stipulation is the more difficult to realise, as the Exchequer is empty, and yet the officials, the police, etc., must still be paid if their work is to continue. Nevertheless, it is imperative that expenditure should be drastically cut down, and that increases of pay or of estimates should only be granted in cases of the most urgent necessity, otherwise such expenditure only entails further depreciation of the currency, with the result that the increases defeat their own object.

A Double Currency required.

Austria must undertake these two reforms with serious and determined energy, otherwise the situation will become hopeless; foreign countries will then neither desire to assist Austria nor be able to do so; the inhabitants, the towns and the whole country will simply go to ruin. . . .

It must be fully realised that in Austria the circulation of the heavily depreciated paper-crown runs into many milliards, and that a unit of account and a standard of value are required which have a real intrinsic value and may serve as a basis for settlements with foreign countries. At present, these two requirements—the home-currency and the means of foreign trade—stand so far apart that they must be treated as wholly separate entities. It is impossible to draw them closer to each other so long as we do not radically alter the conditions out of which the one has arisen and out of which the other has yet to be created. And this change can only be effected by the aid of much time and much hard work.

The Export-Crown.

The basis of the monetary system of the future, as far as Austria herself is concerned, will therefore be the paper-crown which is now in circulation, though for trade with foreign countries a unit of account is required, which for the sake of simplicity, I propose to call the " export-crown." But this calls for a detailed explanation.

Stabilisation of the Paper-Crown.

Once the issue of the paper-crown ceases, it may be assumed that the value of this form of currency has reached its lowest level; within the country it will then become more stable and may continue to be used as legal tender there. Prices of commodities, rents and railway rates will gradually conform to the new value which, it is true, is expressed in multiples of paper-crowns as compared with the old, genuine gold crown. Austria in this way automatically acquires a new monetary system which does not rest on any legal basis, but solely on the practice of everyday life.

Effects of depreciation not always unjust.

The depreciation of the paper-crown as against the old gold crown need not, as a general rule, prove unjust, since the equivalent values are either correspondingly depreciated, or expressed in multiples of crowns.

This requires a little further explanation. As regards " equivalent values correspondingly depreciated," we may take, as an example, the loans issued during recent years by the State or by local bodies. At the time of issue, they received the proceeds of the loans in crowns which had already fallen in value, so that the interest on and redemption of these loans need not be made in any other currency than paper-crowns. On the other hand, those persons will receive " multiples " of crowns who sell their labour or their goods against a larger amount of paper-crowns than they would formerly have received in gold. At a disadvantage, however, are all those persons who cannot obtain a greater amount of crowns for their labour or who draw fixed pensions, or creditors who have claims for which they cannot demand payment in gold crowns. As soon as the position in Austria is more stable, it will be a comparatively simple matter to withdraw from circulation those crown-notes which are not needed. . . .

War-bonds and Capital destruction.

The loans issued during the war will have to be redeemed as soon as possible in order to lighten the burden weighing upon the finances of the country. This, however, not only requires heavy taxation, but possibly a levy on capital. The taxes and capital levies can be paid either in war-stock or in depreciated crowns. In either case, the taxpayer is not actually the poorer for his contribution, since, as citizen of a belligerent country, he received his share of the capital doomed to destruction at the time the war-loan was issued. If he had drawn up a balance-sheet, he would have had to enter on the debit side the sums he was likely to have to make over to the State in the future as his share in the amortisation of the loans which were used for the unproductive purposes of war. A wise man would have treated the war-bonds, as soon as

he acquired them, as " capital-destruction-certificates," and used them as a kind of reserve for the liquidation of his share of the war debt.

The special taxation or the capital levy would not really affect the future of anyone who had reckoned in this manner. He would only suffer from the disadvantage of parting with cash, or securities readily convertible into cash, so that his financial liberty of action alone would be curtailed.

Effects of the Reflux of Paper-Crowns.

In any case, a large amount of the crown notes in circulation must, in this manner, find its way into the coffers of the State, which transmits them to the Austro-Hungarian Bank in liquidation of its own liabilities. The amortisation of the war loans, the reflux of crown-notes to the Austro-Hungarian Bank, would at all events improve the balance-sheet of the State, the position of the Central Bank of Issue and of many individual citizens, if only by cross-entries which would reduce the inflated amounts on either side of the balance-sheet and give it an air of reality. In that way many an account may, with advantage, be reduced to its true proportions, and the actual losses which the war inflicted upon the citizens established.

How to stimulate this Return from abroad.

After a clearing-up of this kind, the total of notes in circulation would necessarily show a substantial decrease. Nevertheless, a considerable amount of them would remain in the hands of owners who are under no obligation to contribute to the amortisation of the war loans, *e.g.*, holders of crown-notes abroad. These notes, for the most part, found their way abroad in payment for goods; that is to say, they constitute a debt which calls for scrupulous settlement. Even if the present owner of the notes is no longer the man who originally furnished the goods, this must be a secondary consideration, since the transaction was only possible owing to the marketable capacity of the crown abroad.

These notes must, in the long run, gravely impede the recovery of the Austrian currency, because they militate against the rehabilitation of the crown on the international market. Hence, it is not only a point of honour, but to the paramount interest of Austria, to bring about the reflux of these notes into the coffers of the Austro-Hungarian Bank. This could be done by the offer of some equivalent.

Exchange of Crowns held abroad for a long-term loan.

One method would be to call in these crown-notes for exchange against stock in the shape of a long-term, say 60 years, loan bearing a low rate of interest, *e.g.*, $2\frac{1}{2}$ per cent. As the crown-notes carry no interest, their foreign holders would probably be inclined to exchange them against marketable Government-scrip. The loan would have to be payable, as regards interest and redemption, in paper-crowns or in the new currency which may eventually replace them, although in the latter case the new currency would have to be given the benefit of its value in comparison with the paper-crown.

The Austrian State would not find itself in a worse position, save for the annual interest-charge of $2\frac{1}{2}$ per cent. But the straightening-out of the national finances and the diminution in the note circulation would surely in themselves prove ample compensation.

The State would have to make over to the Austro-Hungarian Bank the notes returned by foreign countries in further liquidation of its liabilities. The reflux of currency may, however, entail the unpleasant consequence that notes sent abroad may represent capital which originally sought to evade taxation and now benefits from repayment by the State. This is an

unavoidable risk, but the efflux of capital was already an accomplished fact against which the State is powerless, unless it can devise means of exacting reparation at home.

Rise and ultimate withdrawal of the Paper-Crown.

It is extremely probable, if not certain, that these measures must cause an appreciable diminution in the circulation of crown-notes of the Austro-Hungarian Bank. At the present moment, the Bank's claims on the State (based on the Bank's return for the week ending November 15th, 1919) amount to $43\frac{1}{2}$ milliards of crowns; if the State repaid them by the issue of a $2\frac{1}{2}$ per cent. 60-year loan, this would reduce the Bank's liability immediately maturing from 58 milliard crowns to about 15 milliards. For this reason alone, the crown would rise considerably and Austrian State credit would stand higher.

That done, and the partial recovery of Austria brought about by means of hard work, there would remain to be considered the possibility of the complete withdrawal of the paper-crown from circulation, against the issue of a new monetary unit of full intrinsic value into which the old would be convertible at a fair rate. Taking the new monetary unit as equal in value to the old gold crown, it would command, let us suppose, three paper-crowns. The means of conversion would have to be found partly by the proceeds of a loan which Austria could raise on her improved credit, partly through the co-operation of the new Central Bank of Issue, which will be discussed below.

Payment of Foreign Creditors on a Gold Basis.

But there is another sore point which has now to be discussed. The old State-loans, mortage-bonds and other Austrian securities at one time enjoyed good repute and found ready sale abroad. The Treaty of Peace stipulates that the claims of holders of such stock in Entente countries must be eventually settled in gold. Austrian credit would benefit enormously if *all* foreign obligations of old-standing were met on the same basis. For if these securities were definitely made payable in paper-crowns and were converted on this basis into a new monetary unit, this would, in the eyes of the investor, remain a stain upon Austrian credit. The investors, among whom there are many charitable institutions, orphanages, savings banks, etc., originally bought and paid for these securities at gold parity, because they had unreserved confidence in the solvency and honesty of the Austrian debtor.

Creation of a new Unit of Value for Foreign Trade.

So far as regards the question of the paper-crown, the foregoing discussion may suffice. A new way will, however, have to be discovered to enable Austria to participate in international trade, and that at once. The recovery of her internal currency, in so far as it is at all possible, must take a long time.

For our purpose, therefore, a new unit of account will have to be created, or rather, an old one will require to be resurrected. But it must be clearly understood that the existing paper-crown, which has no sanction in law, must be rigidly kept apart from the new crown, now to be created, until the time has come to call in the paper-crown altogether. Until then the two currencies must be treated as wholly separate, as though they represented the currencies of two different countries. Otherwise, the new crown will inevitably fall to the level of the old paper one, and all further endeavours to enable Austria to participate in the world's trade by providing her with an intrinsically valuable unit of account, will be foredoomed to failure.

The question is, how is the new crown to be created?

It must be based on real securities in commodities or in gold, not on national-loan scrip which has no real cover.

How to create Real Securities.

Austria must therefore endeavour to create these concrete securities. She can do so by productive work, combined with the strictest regard to economy, so as to lead to the creation of fresh capital. The work may take the form of service rendered against remuneration, such as America, for instance, performed for Europe for many years before she attained her present strong financial position; it may also take the form of shipping for foreign account, etc.

Production can be effected by the improved exploitation of existing water-power, by modernised methods of production, but, above all, by assiduous, intensive work aiming at a maximum output with the labour available.

The surplus obtained in this manner may be utilised for the purchase of the foreign commodities which Austria urgently requires to restore the economic and social life of her people. It is this factor which will militate against the extremely high level of prices in Austria and make for a return to normal conditions.

The "Export-Crown."

The fresh capital which is the result of the remuneration of services rendered of production and thrift, requires to be converted into a unit of account and medium of exchange suited to the needs of international commerce, a unit which is *de facto* the old undepreciated crown, and which, for the sake of simplicity, may be called the "export-crown."

A New Bank Note.

This must not, administratively, come under the old Austro-Hungarian Bank, as otherwise the danger of its intermingling with the paper-crown would be almost inevitable. It will be necessary to establish a new Central Bank of Issue based on the value of the "export-crown."

This new Central Bank, which I shall henceforth describe simply as "the Bank," must be freed from the influences which have reduced the Austro-Hungarian Bank to its present plight. It will require to be placed under international direction and administration, somewhat on the lines upon which the Bank of Algeciras was founded.

An Imaginary Unit of Real Value.

The Bank will, in fact, introduce an imaginary unit of account, in the same way as the "Amsterdamsche Wisselbank" for 150 years, and the "Hamburger Bank" for very nearly 200 years, have with great success maintained a Bank-Florin and a Bank-Mark as an imaginary unit of account for their international financial transactions. I would refer those to whom this idea appears somewhat vague to some instances of imaginary units of account still in use to-day, such as: the guinea in England (£1 1s. 0d.), and the tael in China. The latter is used everywhere in East Asia, but never has there been any such coin as a tael in actual circulation.

The books of the new Bank will, therefore, have to be kept in export-crowns.

A manufacturer in Austria who sells goods abroad, invoices them in export-crowns; another who buys goods abroad, undertakes to pay for them in export-crowns. In this way, the export-crown becomes a unit of account negotiable in the International Money Market, in the same way as was formerly the Austro-Hungarian gold-crown. The Bank will open current accounts in these export-crowns, possibly also for private Banks in Austria, which in turn will open accounts for their clients in export-crowns. These accounts may be drawn on by cheque in export-crowns; these can be used as legal tender

as cheques are in England, where they practically replace Bank of England notes in all commercial transactions. . . .

Should the new Bank issue Notes ?

The new Bank might, of course, issue new notes of its own in export-crowns. But such an issue has the drawback that these notes might be hoarded and so diverted from their legitimate object. This danger is not so great in the case of book debts, as the Bank then has a check on undesirable efforts in this direction. . . .

Should the Bank, however, desire to issue notes, it is not necessary that these notes should be payable in metallic currency across its counter. But in the case of these notes not being repayable in coin, they need not, necessarily, bear the character of legal-tender paper-money : the notes of a Central Bank of Issue do not fall in value because the notes are not repaid in precious metal, but because there is, in general, no adequate cover available in the Bank for the notes issued. This cover may also be created in another form : for instance, by the payment of gold securities drawn on foreign countries.

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Functions of the Bank in attracting Capital.

The reconstruction of Austria should be made possible at an early date, and the Bank can do much towards this by assuming the initiative of attracting new capital to Austria. In order to make production possible, Austria has need of raw materials, machinery, etc., which at present she cannot pay for and, therefore, has to procure on short credit. It will therefore be the Bank's business to induce foreign countries to supply Austria with the necessary goods on credit. These goods will be imported under the supervision of the new Bank, the necessary guarantees being given that the products resulting from this commission labour and from the development of industry and agriculture, etc., shall in turn be devoted to the repayment of these advances. . . .

Its dealings with the old Currency.

The Bank must have its own capital, which must be raised by several other countries which shall be represented on the directorate. Although the Bank will, on principle, have to make a sharp distinction between the existing paper-crown and its new export-crown, this does not mean that the Bank may not concern itself at all with the circulation of paper-crowns and inland accounts in this currency. On the contrary, the Bank could, in this respect, play a leading part. It must even open current accounts for its clients in paper-crowns, but exclusively for their account and at their risk. The Bank should never become the owner of paper-crowns except momentarily as the result of arbitrage and must on the same day cover itself by carrying out the counter-operation. In this connection, it must act in the same way as banks which keep current accounts for their clients in foreign currencies and, in East Asia, in silver securities. In this way, the Bank can efficaciously promote the settlement of home accounts as well as clearing operations in paper-crowns. Finally, it can also take the lead in the course to be definitely adopted for the regulation of the paper-crowns which, it is hoped, will result in their definite disappearance from circulation by the processes already indicated.

It might even be desirable that the new Bank should be represented on the Commission for the liquidation of the old Austro-Hungarian Bank, in which position it could, at all events, lend most useful moral support, especially

where the solution of the multifarious difficulties existing between the present Austria and her neighbours is concerned. . . .

Relations between the old and the new currencies.

It may confidently be expected that very soon there will be an approximation and, with it, a fairly stable ratio of value, between the paper-crown and the export-crown, so that the public will in time get used to calculating the prices of commodities and services in the new export-crown. A fairly early stabilisation will be possible for both, especially as confidence in Austrian finance can be restored both at home and abroad. There is, here, a valuable field for peaceful international collaboration with a view to the real economic reconstruction of the shattered world. The Reparation Commission should also be able to do much in this direction. All the more reason that these really useful results should not be made doubtful by premature optimism concerning the paper-crown. The paper-crown is a weed, flourishing in the swamp into which Austria has been plunged by the war and by a false financial policy. This weed cannot be eradicated until the swamp has been drained and done away with.

X. A PROPOSAL FOR THE SOLUTION OF THE EXCHANGE PROBLEM.

By Herr A. Lehner.

Two factors undoubtedly form the basis of the German exchange problem, viz., Germany's adverse balance of indebtedness and the lack of confidence with which she is regarded abroad. A third factor, the ratios of the purchasing power of the various currencies to one another, a factor to which paramount importance was formerly attached, has been clearly proved in the last few months to be relatively without effect. While these assertions are, in the main, undisputed, there prevails a decided difference of opinion as to which of the two factors " balance of indebtedness " or " confidence " is of greater importance in the exchange problem. I should like to make myself clear on this point; the problem of an unfavourable exchange can arise only when the balance of indebtedness is adverse. So long as this is not the case, the greater or smaller measure of confidence or distrust placed in a country plays practically no part. It is only when the balance of indebtedness is adverse that the factor of confidence acquires decisive importance, for in the case of an adverse balance the amount of depreciation may be theoretically without limit. *The extent of the fall is determined almost exclusively by the measure of confidence.* At the present time conditions in Germany, due to the danger of Bolshevism, the lost war, the ruinous Peace Treaty, Erzberger's anti-capitalist fiscal legislation with its attendant phenomenon of the efflux of capital, the introduction of the eight-hour day and the continual strikes, have been discounted by foreign speculation, even as regards prospects for the immediate future, by a record depreciation of the German mark.

In the endeavour to solve the exchange problem, there are available two methods which must, on principle, be kept entirely separate: *the method of State aid and that of private self-help.*

The war, with its far-reaching system of control, even in the economic field, and the Revolution, with its efforts in nationalisation, have created in wide circles of our people a mentality that looks to the State alone for its salvation. The State is to negotiate with other States and raise loans with them for exchange purposes. In particular all eyes are turned towards North America, the one desire apparently being to saddle it with the functions of a sort of Relieving Office for all Europe. The rebuffs with which such proposals were received in America are patent enough. Hoover, as well as other leading American statesmen, has pointed in no ambiguous manner to the method of self-help. It is, however, not alone the unaccommodating attitude of the enemy States, and especially of America, that compels us to tread the path of self-help, but also and primarily, the fact that German State credit has touched a much lower point than the German exchange. As a matter of fact, *private credit is the only thing that can save us.*

If we desire to solve the exchange problem, our chief task must be the restoration of equilibrium in the German balance of indebtedness. The former means for the attainment of a favourable balance, viz., excess of exports over imports, receipt of interest on debts, shipping freights and insurance premiums, will not be available for us in the next few years, to say nothing of the fact that the Damocles' sword of the Peace Treaty is permanently suspended over our heads. Our balance of indebtedness can be

adjusted to-day only in one way: by foreign countries deferring payment of the amount of the current deficit, *i.e.*, by granting us credits for the amount in question. In order to obtain credits, however, one must enjoy confidence, *i.e.*, the whole exchange problem centres in the solution of the question: *How are we to inspire confidence in our solvency abroad?*

We have already seen that, failing all confidence abroad in the solvency of the German State, we have only private credit at our disposal. It is precisely on this point, however, that a widespread misconception prevails. Many people, including even our official economic authorities, appear to believe that the German banks or German traders have merely to approach their former business friends in order to obtain blank credit for one year or even two years. But, apart from exceptional cases, this is absolutely impossible; indeed, it was not customary even in pre-war days. Before the War, international trade in commodities was, in general, regulated by three-months bills of exchange, and, in most cases, even these bills were not blank credits but were covered by goods (bills of lading, etc.). Properly speaking, only our banks enjoyed—although only for the customary period—uncovered credit. To-day, unfortunately, the fact cannot be concealed that even the German banks have no longer unlimited credit abroad. This is, certainly, comprehensible, if we consider that by far the greater part of the assets of our large banks consist of Treasury bills, *i.e.*, credit obligations of the German State. Thus even in the case of private endeavours to regain the confidence and, with it, the credit of foreign countries, there can be no question of asking for long and uncovered credits from foreign banks or traders—*and " uncovered " in this sense applies to a credit secured by bank-balances in marks.*

We are not entitled to expect support from abroad in our work of reconstruction merely on the ground of general confidence. Such confidence in Germany foreign countries do not feel at the present time, otherwise our exchange would not be so bad. It is therefore hopeless—either for the State or for individuals—to look for confidence and credit abroad on this basis. On the contrary, we must *be able to offer some real guarantees*, in return for the credits asked for.

What real guarantees, then, can we offer foreign countries? First, of course, an immediate return in German export goods promptly despatched, that is to say compensation; or the obligation to export the goods manufactured from the raw materials supplied to us, *i.e.*, the work of " making up " goods in return for payment. Much can, undoubtedly, be achieved in this way, but this is no solution of the exchange problem, as by this method we obtain import credits only to the amount of our exports, and this cannot suffice; for if our imports were not greater than our exports we should have no exchange problem, a problem which consists precisely in procuring foreign bills for the imports not covered by exports.

The real guarantees to be offered by us abroad must rather be in the nature of a *concrete pledge* in the hand of the creditor, so that even *in the event of our economic collapse he is secured to the extent of his claims.* The best credit bases of this kind are:—

(1) Productive material securities.

(2) Merchandise of ready sale.

(3) Real estate.

The greater part of these sureties are in the hands of industry and trade and it seems, therefore, obvious that individual firms endeavouring to obtain the exchange credit necessary for the purchase of raw materials and merchandise abroad should mortgage these material securities to foreign banks or exporters. Herein, however, there arises the danger of dissipating our forces by individual action and so frittering away our best economic resources without effect. Moreover, there arises the much greater danger that in this way, owing to the insolvency of individual firms (such insolvency may easily occur should the exchange continue to fall, as the terms on which credit is granted generally provide for repayment at higher rates), *these material securities will gradually pass into the hands of foreigners.* If we wish to avert this danger and the threatening dissipation of our forces we must create *an organisation which will systematically combine all such private material securities in order to utilise them as a whole as a basis for foreign credits.*

Before examining this proposal more closely I should like to revert to an economic precedent, which was founded on similar lines and which proved a complete success; the *Schulze-Delitzsch Credit Associations with unlimited liability.* Schulze-Delitzsch took as his starting-point the fact that the individual small artisan and tradesman enjoys no credit and thereby is gradually being ruined. As Schulze-Delitzsch lived, not in the twentieth, but in the nineteenth century, he did not demand State aid, say in the shape of State credits to artisans, but advised them to adopt the method of self-help. He showed them that, although the individual artisan enjoys no credit, 50 or 100, say, of such artisans by amalgamating with one another are perfectly worthy of credit, and he therefore urged the formation of co-operative credit societies with unlimited liability, *i.e.*, all members of such societies should be responsible to the full extent of their private means for the societies' liabilities. Thus the determining basis of credit was not the total amount invested by the members, but the confidence inspired by their combined liability.

German trade and German industry are to-day, with regard to foreign countries, in a position analogous to that of a small artisan of that period; individually he is not unconditionally regarded as solvent, but in the aggregate he may justly demand a considerable measure of confidence, *i.e.*, he has a claim to credit. My proposal, therefore, is *that banks, traders and manufacturers shall amalgamate to form a German-International Central Clearing Bank (Giro-Zentral-Bank)*, the members of which shall all be liable to the full extent of their individual means for the liabilities of the Central Credit Bank. Upon this Central Credit Bank would devolve the task of *procuring credits abroad and of regulating Germany's international payment operations.*

As in the case of the co-operative credit society with unlimited liability cited above, the solvency of the German International Central Clearing Bank would similarly depend not upon the amount of the initial capital but, as the greater portion of the industry and commerce with its vast material securities, would be responsible for the Bank's liabilities, chiefly upon the confidence of foreign countries in the working power of German industry, and also—as a sort of pledge and security in the event of insolvency—upon the value of the material securities behind the Central Credit Bank, viz.:—

(1) The productive material securities of industries;

(2) The readily-marketable trade stocks; and

(3) The real estate of all the industries concerned.

Most people will, of course, involuntarily shrink at first from such a far-reaching liability, but I hope that this first impression will not be maintained on closer examination.

The first duty of the German International Central Clearing Bank would be to procure the *most urgent import credits* for raw materials and foodstuffs.

In my opinion the German Central Clearing Bank would have to open negotiations immediately with all countries with which Germany has any kind of economic relationships, with a view *to the establishment of corresponding auxiliary organisations* in these countries. It would not be a question of America alone, but of all countries from which we import goods of any kind. Negotiations would not be with the States, but with the private organisations of these countries, *i.e.*, chiefly with banking, commercial and industrial organisations.

In foreign countries, however, an unlimited liability association of all banks and commercial and industrial firms would possibly not be required as in Germany, but merely an ordinary clearing bank of a centralised character. Its function would be to act as intermediary in payment transactions with Germany by settling accounts with the German Central Clearing Bank, to procure foreign bills for its own country and to provide bills of that country for foreign countries (*e.g.*, Germany).

In the settlement of accounts between the German and a foreign Central Clearing Bank, should any balance result in favour of the latter, Germany would be allowed a long-term extension for payment against security and, simultaneously, the foreign bank would negotiate a loan to an equivalent amount on its own money market.

By the extension and funding of our adverse balance of indebtedness from time to time, the account would be adjusted and the necessary result would be that our exchange would gradually improve and would finally approximate to gold parity.

With a view to the more exact elucidation of my proposal, I should like to discuss briefly the details of the organisation contemplated by me.

I.—Organisation of the German International Central Clearing Bank.

Any trader or business man whose name is entered in the Trade Register is *eligible for membership.* Eligibility is to be determined on approximately the same lines as is customary with the Reichsbank in respect of the opening of a Reichsbank deposit account. The production of three sponsors would be desirable.

The individual *members* should be divided into *branch groups,* which in their turn would constitute special elective bodies. Communal associations, co-operative societies and industrial organisations would also be eligible.

Direct transactions between commerce and industry and the Clearing Bank would not take place, as this would necessitate too large a staff. *Each firm, however, would deal with the Bank through its bank or bankers.*

State co-operation, part-management or supervision would be undesirable on account of the political difficulties which would thereby arise. On the other hand, complaints arising from exclusion from membership or expulsion from membership should be left to the decision of the State or the Chambers of Commerce.

The strength of the *Board of Directors,* which should be elected by the Advisory Council, would be governed by requirements. On the other hand, care must be taken that the Advisory Council is not too large: the appointment of one representative of the Reichsbank, the banks, the bankers and the various industrial groups is sufficient.

The regulations concerning the manner of investing Capital are most important, indeed of almost paramount importance, both for economic reasons, in view of the large sums accumulating at the Central Clearing Bank, and from the standpoint of the solvency of the Bank. For the latter reason *investment in State and Communal securities* (as being covered only to a very small extent by material assets) *must be prohibited* on principle. Similarly, the holdings of paper-money and credit balances must be restricted to the irreducible minimum. The capital should be invested in mortgages, mortgage-bonds, industrial debentures secured by mortgage, bills of exchange (covered by goods, not Treasury Bills) and, possibly, preference shares of sound companies.

The regulations concerning the *liability* of the members are also of especial importance. Each member on being admitted should be required to name a sum, the amount of which would be the determining factor in apportioning among the members the percentage of any profit or loss; it would also determine their voting rights. This guaranteed sum must amount to at least 10 per cent. of the business capital of the member. Each member would also be required to maintain a standing balance bearing no interest at the Central Clearing Bank of not less than 10 per cent. of the sum guaranteed. In the event of any loss in excess of the guaranteed sum, it would be possible to hold each member responsible to the full extent of his fortune in proportion to the amount of the sum guaranteed.

The amount of the guaranteed sums would be increased or reduced at the end of every financial year, in proportion to the amount of the import credits claimed by the individual members.

In this connection it may be pointed out that essentially the only way in which the German Central Clearing Bank could suffer a loss would be from a further fall in the exchange—which is precisely what the Bank intended to prevent—while an upward movement of the German exchange would involve enormous profits for the Bank. These profits, after deducting the not inconsiderable taxes, would accrue wholly and entirely to commerce and industry.

II.—Organisation of the Foreign Central Clearing Banks.

Except in the case of countries with a weak exchange, the question of unlimited liability for the members concerned in the foreign Central Clearing Banks does not, of course arise. Nor would it be necessary for the majority of the traders and manufacturers to be concerned in these banks. It would be quite sufficient if individual banks and large firms co-operated to form such a clearing bank and furnished it with sufficient capital to meet its obligations. The best method, perhaps, would be that usually followed by our insurance companies, viz., to pay up 25 per cent. of the capital and to deposit gold bills for the remaining 75 per cent.

III.—Organisation of Import Transactions.

The principles by which we must be guided in regard to import transactions are :—

(1) The Clearing Bank grants no credits to the members.
(2) Imports are to be restricted to essential articles.
(3) Dealings through the Central Clearing Bank must not hamper the transaction of business.

In order to prevent the foreign bills procured through the Clearing Bank from being used for other purposes than the import of goods, the system of reimbursement credits or letters of credit should be adopted, *i.e., payment would be made abroad only against the delivery of the documents relating to the goods.*

Foreign bills would be procured by the following method: The Clearing Bank will announce daily the rate of exchange for cash and on credit fixed by it in concurrence with other banks. Should a member require payment in foreign currency, he must simultaneously pay in to the Central Clearing Bank the corresponding amount in marks through the agency of his bank and communicate the terms upon which payment is to be made. The Clearing Bank thereupon instructs the foreign clearing bank concerned to pay out the prescribed amount to the person concerned. *Payment is not made in cash,* but by a three months' acceptance of the clearing bank making the payment (which the payee can discount at any bank).

IV.—Organisation of Export Transactions.

All members affiliated to the Clearing Bank bind themselves on pain of conventional penalties :—

(1) To sell export goods only to members (whereby the activity of foreign speculative buyers and illicit traders is handicapped).

(2) To conduct all exports through the Clearing Bank.

Payment for exports is then made in the same manner as described in the converse case of imports (the foreign clearing bank draws for the foreign importer a letter of credit on the German Clearing Bank in favour of the German exporter, payment being made to the latter against delivery of the documents relating to the goods). At the same time, the foreign clearing banks are of course at liberty to waive the demand for a previous deposit from their members.

The requisite control should also be arranged to take place *subsequently* on the basis of prohibition lists and general regulations.

V.—Settlement of the Clearing Banks with one another and Granting of Deferred Payments.

During the next few years it is, no doubt, to be assumed that most countries will have a favourable balance of indebtedness in respect of Germany. This case only, therefore, is considered :—

No transmission of money or money-equivalent will be made between the clearing banks. On the contrary, they will adjust the payments made on one another's behalf by the clearing system. On the foregoing assumption, however, as the foreign banks pay out more for the exports to Germany than they receive for their own imports, the capital requirements of the foreign banks will be large. It is, therefore, of the utmost moment to consider at the outset *whether the whole proposal will not come to grief on this account.*

I already mentioned in Section III that all banks pay not in cash but in their own three-months acceptances; that is to say, by a uniform distribution of the imports and exports over the whole year the current circulation of such bills will amount to one-fourth of Germany's total annual imports from the country in question.

In general, one may assume that the deficit in the German balance of indebtedness does not exceed one-fourth of the total imports or ought not to exceed this in the event of such an agreement being concluded. So long, however, as the adverse balance does not exceed one-fourth of the total annual imports, the capital requirements of a clearing bank for the period of one year are covered by the bills negotiated by it. (In the few

exceptional cases in which a larger adverse balance is allowed to Germany, the foreign clearing banks—similarly to the regular renewal of Treasury Bills—may negotiate fresh acceptances of their own to the amount of the capital required.)

The main point in the whole organisation proposed by me is, however, the settlement of the difference in the German balance of indebtedness resulting annually in favour of foreign countries. Let us consider, for example, the settlement of Denmark's account with Germany.

Let the difference in favour of Denmark at the end of a financial year be Kr. 100 million, the rate of exchange being Mk. 300 per Kr. 100 and Germany's imports from Denmark totalling Kr. 500 million, *i.e.*, Germany's exports to Denmark totalling Kr. 400 million. The Clearing Bank in Copenhagen has, accordingly, a claim of Kr. 100 million against the German Central Clearing Bank, and in circulation about Kr. 125 million of its own acceptances, maturing within the next three months. The German Central Clearing Bank on its part owes a debt of Kr. 100 million against which it has a reserve of Mk. 300 million. For this amount of Mk. 300 million the German Central Clearing Bank now buys mortgage bonds, industrial debentures secured by mortgage, mortgage loans and perhaps, also industrial preference shares. (Thus the capital accumulating at the clearing banks would revert to trade and industry in another form, particularly as a part of the debentures, etc., to be purchased by the Clearing Bank, might or must be issued by the firms affiliated to it specially for this purpose). *These securities, etc.*, to the value of Mk. 300 million *are deposited and mortgaged by the German Central Clearing Bank with the Clearing Bank in Copenhagen.*

On the basis of this concrete security, *the Clearing Bank in Copenhagen issues a loan* of Kr. 100 million and permits the German Central Clearing Bank to defer payment of its debt to the same amount and for the same period (not less, say, than five years) as fixed for the redemption of the loan issued by it.

For the just appreciation of the question whether such a loan of Kr. 100 million would be taken up in full on the Danish money market, *the extent of its cover* is the chief guide:

(1) Liability of the capital of the Copenhagen Clearing Bank.
(2) The debentures secured by mortgage and other securities pledged as a basis for credit, amounting to Mk. 300 million.
(3) Liability of the capital of the German Central Clearing Bank.
(4) The guaranteed sums and the whole private estate of the commercial and industrial firms affiliated to the German Central Clearing Bank, *i.e.*, *their entire productive labour and all their material assets.*

If we do not obtain an exchange loan under these conditions on the foreign money market, there is, in my judgment, no way at all in which it is to be obtained.

XI. SOME FRENCH PROPOSALS FOR THE IMPROVEMENT OF THE MONETARY AND FINANCIAL SITUATION IN FRANCE.

Summary by M. ANDRÉ SAYOUS.

Before we proceed to a description of some of the proposals brought forward by Frenchmen for the improvement of the monetary and financial situation in France, it will be helpful to recall the difficulties with which that country has had to contend since the beginning of the War, and to outline their main causes.

Up to the end of 1917, or even to the beginning of 1918, the currency in circulation increased in France, *although no actual inflation took place*, at least to any *remarkable extent*. The issue of bank notes increased rapidly, not in an artificial manner, but owing to the *need for ready money*. Minted gold and silver, which was current to the value of some six milliards of francs, was brought to the Bank or else hoarded, and it became necessary to replace it. In the homes of mobilised men there were now two " purses " instead of one—that of the soldier as well as that of the family. Many purchases which would usually be effected by drafts were now paid for in ready money, and the huge decrease in the number of bills of exchange led to the issue of more bank-notes. These were themselves hoarded in their turn, either by reason of the instinct of fear for the future, or in view of disturbances in local intercourse and in transport. A portion of the expenses of the English army and the expenditure of English soldiers in France was paid in French notes. As the cost of living increased it became necessary, chiefly for economic reasons, to make the currency in circulation correspond with the amount of money required.

During the same period, France experienced no difficulty, except in the spring of 1916, in obtaining the exchange she required; the assistance of her Allies fairly quickly enabled her to avert such difficulty to a very great extent.

As far as the State was concerned, it was obliged, in order to meet its huge expenses, to proceed on a system of long and short credit transactions, and also to turn to its Allies for help; there was nothing else to be done in a country partially invaded and entirely devoted to national defence.

Towards the end of 1917 or the beginning of 1918, the situation gradually changed; in considering this change it is hard to distinguish the causes from the effects. To start with, the American soldiers naturally needed French notes for their purchases in Europe; but on the other hand, the vast sums at their disposal and their habit of outbidding everyone else caused the Americans to exert an unfavourable influence on the currency and on prices. However, we can safely say that before the Armistice the volume of currency in France depended upon general conditions and on prices far more than it influenced them.

Between the last months of 1918 and the end of 1919, the Banque de France very greatly increased its issue of bank notes, chiefly to balance its new advances to the State; this took place at the very time when many hoarded bank-notes reappeared (largely by reason of the land-purchases made by peasants from middle class town-dwellers). As the volume of currency was stabilised tardily, both prices and wages tended to become *fixed* at a high rate.

The serious crisis in the state of the French exchange did not occur until 1919; the English and American treasuries first reduced and then stopped their assistance altogether, so that France could only obtain credits on terms which became harder and harder, at a time when she was obliged to buy quantities of food stuffs and get in a supply of raw material. It was not so much a question of long term credits as of

"credits for speculation in exchanges"—*i.e.*, the purchase, with foreign money, of French francs in the hope of buying back, later on, a larger sum of foreign money with those same francs.

Although France was hard hit by the War, she should have considered sooner the question of balancing her ordinary budget; her delay in doing so has done her a great deal of harm.

France has, at the present time, already greatly improved her position, and she has decided to pursue the same course further. She compels the confidence of the world by her *great financial effort* and by her *peaceful domestic conditions.*

The proposals which have been made by various private persons in France with a view to bringing about a return to normal conditions form a good indication of the chief problems with which the country is faced at the present time:

(*a*) The improvement of currency and financial conditions at home.

(*b*) The improvement of foreign exchange.

(*c*) Opening of commercial credits abroad.

(*d*) The settlement of France's debts to her Allies.

(*e*) Mobilisation of the German indemnity.

(*A*)—The Improvement of Currency and Financial Conditions at Home.

The French press has constantly discussed the inflation of the currency and its pernicious effect upon prices. Encouraged chiefly by the Banque de France, it advocates the employment of useless currency for the purchase of Treasury Bonds or of holdings in the National Loans. But attempts in this direction only succeed in effecting a very slight reduction in the currency, which appears at the present time to be more or less *stable, and to be unable to suffer any great decrease in the number of notes without a crisis taking place.*

This fact eliminated all idea of active and prompt interference with the money market. It is generally admitted in France that the Banque ought gradually to obtain repayment of its advances to the State; and that, in order to maintain the currency at a level corresponding to existing requirements, it should allow credits to private persons, which credits would be more readily reduced when such a course becomes possible and, in particular, when prices go down.

The consolidation of such an undertaking can only be effected by work and economy and by a fresh output of precious metals, which would render possible an earlier return to a state in which notes may be converted.

It is impossible to give any account in this place of the important debate which took place on the budget and appropriation of 1920. The debate in any case concluded by a vote which proved to the world France's *desire* for a *healthy* financial situation. The one subject which remains to be discussed is the "levy on capital."

(*B*)—The Improvement of the Exchange.

Periodical discussions are held by French economists and financiers on the question whether the control of exchange should be retained or abolished.

Some point out that France cannot yet abandon the principle of using foreign bills in the national interest, nor do without a certain control of the international trade in capital.

Others compare the present regulations to a net of too wide mesh, and, urging the necessity for the complete resumption of international relations, they claim that nothing but a policy of freedom would to any considerable extent draw foreign capital into the country.

As a matter of fact, the system of control is still in force, but in a form *much tempered* by the grant of many important alleviations.

Both during and since the War, M. Jules Décamps, the head of the Financial Research Department of the Banque de France, has made a special study of the French exchange. He has contributed the following interesting pamphlets to the subject: "*L'or et les règlements internationaux pendant la guerre*" (Paris, 1918. Berger-Levrault), "*Le Crédit international et la crise du change*" (*Journal des Economistes*, April 15, 1920), "*Aperçu sur la crise des Changes*" (*Comité National d'Etudes Sociales et Politiques*, not in trade circulation).

M. J. Décamps is in favour of stopping the import of useless or non-essential goods, and of increasing the country's exports, and above all he urges that "the *part played by exchange speculation credits should be restricted*," and that "they should be replaced by more regular and less costly credits arranged for a moderately long term, *so that France should not be burdened with their payment until she has had time to re-establish her general economic situation.*"

No plan could be better conceived than this: the *consolidation* of exchange credits; for no danger could be greater than the menace of the sudden withdrawal of the capital in question for the purpose of buying foreign bills.

The idea of obtaining new exchange credits has also been again considered. M. J. Corréard, well known as a Treasury Inspector and as a journalist (his nom-de-plume is "Probus"), has drawn up the following scheme in "Les finances modernes pour vivre"; "When the indebtedness of one State towards another exceeds its credits, the creditor State will advance or guarantee advances to the debtor State within a maximum limit, and at a fixed rate of exchange which shall vary according to the magnitude of the advances agreed upon."

In other words, a State having a deficit should be allowed to "make a market" for its exchange by making use of a credit opened in another State—that is more or less what France did during one period of the War. The scheme is not new in any way. It could quite easily be adapted to existing circumstances.

The plan of an *international bank issuing international currency notes* has been reconsidered. But it was discarded at the Parliamentary International Trade Conference of May, 1920, owing to a well-justified fear that its adoption would cause the inflation of the currency together with the depreciation of other notes in circulation.

In order to meet the latter objection, it was proposed that the international Bank should issue, instead of notes, interest-bearing bills of exchange, which would circulate in all countries and restore equilibrium. It was thought, however, that an institution of the kind would overlap a great many other banks in ordinary commercial operations.

We shall, when we come to discuss the mobilisation of the German debt, review the schemes drawn up with a view to making "the reconstruction indemnities due by Germany in accordance with the Treaty of Versailles serve as a basis and a guarantee for the international regulating operations which will arise out of the purchases abroad made by the injured country."

Most of the above schemes and others similar may be retained either as they are, or with certain special modifications. They are all based on correct ideas: the *consolidation of the floating debt, the opening of new credits, and prudent support of the exchange market.*

(*C*)—Opening of Commercial Credits Abroad.

The United States have abandoned inter-State credits in favour of long-term commercial credits, of which France has already taken advantage, though not to the extent which might have been expected.

Some French firms complain that the Americans will not open these credits without guarantees which the former find it difficult to obtain. It is more probable that French industrial and trading concerns prefer to pay ready money for their raw material and to do business with their own customers at proportionate prices, for fear that they might have to repay the money lent at a time when the exchange would be *more unfavourable* than at the time when they used the credit.

It is quite possible that in the future French industrial and trading firms will cease to regard this danger as so great, and will find that it pays them to apply to foreign banks.

Generally speaking, France has a sufficiently large number of banks of sufficient activity to make it quite unnecessary for public opinion to favour the foundation of new establishments granting *more or less special credits* under *more or less special circumstances.* A short time ago, France carried out the only scheme on which nearly all agreed—that of the *Banque Nationale Française du Commerce Extérieur*, for giving long credit to exporters to foreign countries both near and far.

(*D*)—The Settlement of France's Debts to her Allies.

At the present time France is deeply *anxious* concerning the debts which she incurred during the War towards her Allies, England and the U.S.A. She is astonished at the fact that the Powers who shared the struggle with her do not propose some arrangement in which both past and future are to be taken into account.

It is no longer possible to consider the plans suggested by Stern and Bouilloux-Lafont (*see* " Essai sur le rôle économique et financier de la Société des Nations," by the latter. Etampes, 1918), according to which the financial burden of the War was to be divided on an *equitable basis.* We must now find some way of alleviating the load which is weighing upon France.

The most remarkable scheme of this kind is that recently elaborated by M. Jean Herbette in the *Temps :* the lending States should refrain from charging any interest on the capital lent, and the latter should be repaid by *annuities* stretching over a fairly large number of years.

So long as the United States and England fail to accept some system which will lighten France's load, the latter country will look forward with apprehension to the expiration of every one of her liabilities to those two countries at the present rate of exchange. The repayment of each debt, apart from the interest, is a very heavy burden, and each time there is the fear of aggravating the exchange crisis by heavy demands for foreign bills.

(*E*)—The Mobilisation of Germany's Debt to France.

The whole of France is most particularly reckoning upon the payment of the War indemnity by Germany to enable the nation to overcome the main financial difficulties of the present and of the immediate future : to obtain capital for re-establishing Northern France, to hold foreign bills and foreign debts with a view to improving the exchange, and to secure the wherewithal to pay a part of the debts owing to the Allies.

As everyone knows, the Treaty of Versailles provides that Germany should give *bonds* to the Reparations Commission. What is the use of those bonds to States which have suffered the ravages of War ? And, moreover, are those bonds negotiable instruments which will be accepted by all, or should the procedure outlined in 1919 be slightly altered ?

Those in favour of the bonds point out their advantages from the commercial point of view with the rapid means of securing payment which they involve. Those who are against them claim that these advantages are entirely illusory ; they would prefer, in view of the long period of the liabilities and the consequent necessity for the Bourse and the Banks to seek help from the National Savings, to speak frankly of *loans.*

However that may be, it cannot be denied that the mobilisation of the German indemnity cannot be effected except by means of *several international transactions*, in which less—or very little—recourse will be made to circulating capital, than to *capital seeking investment.*

This point was brought out very clearly at the meetings of the Parliamentary International Trade Conference in May last. According to the latter, the German bonds would be *real international securities*, whose value could be augmented by the *Allies' guarantee*, and which would be *negotiable in the markets of all States belonging to the League of Nations.*

All the schemes have been drawn upon this basis. The most interesting, in our opinion, is that of a loan *guaranteed* by the German liabilities and by the Allied Powers, and in virtue of which a *distribution* would be made among the States of the *guarantee*, the *sums realised by the issues*, and the *proportion of the loan to be issued in each country.*

Neither economists nor financiers are blind to the difficulties which must be overcome in order to obtain a practical solution of the problem of mobilising Germany's debt to us ; their plans are all in the form of suggestions which undergo constant improvement and modification. It is too soon yet to summarise ideas which are still incompletely elaborated and which have not yet been made public in any form.

XII. SCHEMES SUBMITTED BY GERMANS FOR IMPROVING THE MONETARY AND FINANCIAL SITUATION OF GERMANY.

Summary by M. ANDRÉ SAYOUS.

We propose, in a short introduction, to point out the causes—according to certain German opinions—of the difficulties against which Germany is contending. We shall then dwell on some of the German schemes for improving not only the exchange but the internal situation, and for supplying the country with the elementary factors of economic recovery.

The latest study by Professor Emil Lederer ("Deutschlands Wiederaufbau," 1920) seeks to make comprehensible the present state of Germany by tracing a picture of the situations through which the country has passed since the declaration of War :—

(*a*) After a short period of depression, *a period of seeming prosperity* (from the autumn of 1914 until the spring or summer of 1915), production being fairly active.

(*b*) A period of *decreased production causing a greater rise in prices at home than was the case abroad* (until about the end of 1916).

(*c*) A period of *greatly restricted production* (especially after the Auxiliary Service Act—*Hilfsdienstgesetz*), when holders of *huge sums in liquid capital* fought for the stocks still in existence.

(*d*) *The return to relatively free trade* (after the Armistice) at a time when the *economic difficulties were at their height* and under *currency conditions* which, pernicious as they already were, subsequently *became worse.*

The merit of this study is that it recalls the importance of the *economic factors* in the crisis instead of dwelling solely on their monetary and financial causes, which strike the eye more clearly to-day.

A volume published a little earlier by Professor Prion ("Inflation und Geldentwertung," 1919) is in the same strain : according to him, during the first years of the War, until at least the spring of 1916, *the increase in the currency issues was chiefly the consequence of the rise in prices*, and only *gradually* became a cause rather than an effect.

From these statements, as from other similar ones, the practical conclusion was drawn in Germany that *currency measures alone could not possibly restore a normal state of affairs*. By diminishing the currency artificially, recently remarked the distinguished director of the *Oesterreichische Volkswirt*, the crisis will certainly be intensified : the inflation can only decrease *gradually* and as a *result of a fall in prices.*

Various writers (Von Beckerath, for instance) adopt a similar point of view with regard to the exchange crisis. Herr Arthur Feiler, editor of the *Frankfurter Zeitung*, has stated (*Deutsche Wirtschaftszeitung*, June 1) : " The exchange problem is not one currency but of economics . . . ; it cannot in any way be solved by currency measures, . . . its solution depends entirely on a combination of economic with financial measures."

An improvement in the balance of indebtedness (especially the commercial balance) can alone ensure lasting results (Georg Bernhard in *Plutus*, June 23, 1920). But " increased production would be ineffectual unless the increase in media of payment were stopped " (Professor Ernst Walb, in the *Kölnische Zeitung*, March 21 and 23, 1920, who thinks that inflation " is the original cause " of the depreciation of the exchange).

Although the German exchange recovered rose at the very time when a continuous stream of bank notes and Treasury bonds was being issued, opinion is unanimous that no serious and effective measures can be taken to improve it until Germany herself makes a great effort to improve her internal situation.

(*A*)—SCHEMES FOR IMPROVING THE INTERNAL CONDITION OF GERMANY.

Every month Germany has a Budget deficit of about three milliard marks covered by the issue of new Treasury bills and bonds. She is thus going rapidly towards destruction : the fiscal problems become increasingly difficult to solve ; the inflated currency accentuates the depreciation of the fiduciary issues.

It is impossible to reproduce here all the German proposals for improving the Budget situation. The most interesting measure is the *Levy on Capital* (*Vermögensabgabe*) one of the chief effects of which was to be a *deflation of the currency*. Unfortunately this tax will scarcely achieve such an aim : the payments are made at intervals ; war loans are surrendered in payment to the public exchequer in increasing proportion to their fall in value on the market ; a premium for immediate cash payments alone achieves some results. (Albert Oeser, " *Die Deutsche Finanzlage*," Frankfurt, 1920).

In ordinary times the inflation could be stopped by raising the rate of interest. But, under the present disturbed conditions what would be the result of raising the rate of interest by 1 or 2 per cent ? If it had any, it would be mischievous, says the *Berliner Tageblatt.*

The Germans are beginning to busy themselves with anticipatory measures for *a fall in prices*, and especially with plans to assure in the future, and not too suddenly, a *decrease in wages*. It may be rather premature to speak of a decrease in wages (for they have not increased in like ratio to the price of commodities), but attention may be drawn to the scheme of a German manufacturer, Victor Zuckerkandl, who proposes to establish indexes and to make wages proportionate to the cost of living when that falls, as was done when it rose, and to generalise *the method*. (" Zum Abbau der Preise und Löhne," *Neue Freie Presse*, June 9, 1920),

(*B*)—SCHEMES FOR IMPROVING THE GERMAN EXCHANGE.

Let us say at once that there is no question of re-establishing the " Central Exchange Office." It is not desired to give to any body such discretionary powers as those possessed by the Reichsbank during the greater part of the War. On the one hand, imports and exports are being in some measure *organised ;* on the other, the Bill of Exchange Office under the Finance Ministry and the Reichsbank are " supporting the market."

We will review shortly the observations called forth from several writers by the last rise in the exchange ; they touch on the circumstances in which a State can " support the market " with any chance of success. Why has this method, which the Reichsbank employed without any great success during the War, recently been successful ? Because the State, whose means by themselves are always insufficient, found support in the speculators for a fall who, as soon as the rise began, had to cover themselves. This was an ingenious step, but not a serious means of improving the situation by " supporting the market ! "

The *Frankfurter Zeitung* (May 1, 1920) formulated a " proposal for the Brussels Conference " by which a *Trust*, chiefly, if not exclusively, American—should *guarantee the conversion of marks into dollars, francs, etc. . . . , at a fixed price.* For instance, the rate would first be fixed at $1 = 50 marks. In order to moderate the fluctuations in the rates and to procure new means the marks would be sold as soon as a certain

level ($1 = 44·5 marks, for example) was *temporarily* passed. The minimum level would be gradually raised to correspond with the improvement in the state of Germany

Technically this scheme is not badly conceived. Has not the firm of Morgan already played a similar part in America in respect of the £ sterling? A day will perhaps come when foreign banks will be willing to give such aid to Germany, but this aid presupposes *complete confidence* in the future of the borrower.

Herr Georg Bernhard, director of the *Vossische Zeitung* and *Plutus*, in the course of private interviews which we recently had with him, discussed a proposal already formulated by M. Vissering, President of the *Nederlandsch Bank*: the German exchange might be improved, he stated, if the payments between any two specified States were *concentrated* in certain definite offices, and if the sums owed by the two sides were then *balanced*; in case of a deficit on the German side only, *the amount of the deficit would then have to be found.*

Under present conditions this system would not be without its dangers, for the deficit might be considerable (Herr Bernhard has, in fact, acknowledged this) but as soon as the condition of Germany improved, it would be possible to proceed in this manner.

There are numerous schemes for creating a bank which would issue *gold notes* or, to be more correct, notes *backed by metal and assets abroad.* Professor Lederer describes the following plan: "A *special currency* would be created *for abroad*, its unit bearing a different name from the mark; a new *private bank of issue*, having a gold stock, which would be deposited abroad, would also be created. The bank would form business connections with the industries, which would receive from it, in accordance with banking practice, credits in the form of transfers of notes. . . . These notes would not be in the currency of the country . . . . . but a relationship would be established between the new notes and the mark.

But this plan is open to the criticism levelled against all such plans. *Bills of exchange*, not currency, are needed for foreign trade; and there is *no need to create new bank*; the banks in existence on the one and the other side (in the importing and the exporting country) are already executing and can develop this kind of transaction. The creation of a new "gold currency" would be liable to *accentuate the depreciation of the home paper currency.*

Professor Lederer, like others of his countrymen, does not conceal his chief motive for the creation of a new agency: he wishes *to prevent the German notes in existence abroad from burdening the German money market*; the present notes would no longer have any value except within Germany!—a solution both arbitrary and clumsy!

Efforts have been and will certainly still be made by the Germans to consolidate their debts which have fallen due, or are on the point of falling due, abroad. Negotiations were conducted fairly recently in this respect with Swiss banks. A "Guarantee Institute" in which the State, the industries and the banks participate, and with both State (Treasury bonds) and private guarantees, is said to have been created; the debentures, issued to persons who wish thus to convert their marks, will pay from 6 to 7 per cent., and will be redeemable after 5 years at a minimum rate still to be fixed (*Plutus*, March 10, 1920; *see also* the article by Herr Arthur Feiler, "Die Valutafrage," in the *Deutsche Wirtschaftszeitung*, June 15, 1920).

(*C*)—Schemes for Securing Raw Material for Germany.

At the time when Germany refused to believe that she would be beaten plans were set on foot with a view to procuring for her industries the raw materials of which they were most in need. In default of a war indemnity the Peace Treaty would require the Entente States to advance capital for this purpose! The disillusionment was bitter.

After the Armistice the Germans were able to make a few purchases abroad, but, were obliged, in general, to procure themselves the money for their transactions. They gradually specified what conditions they were disposed to accept in order that credits should be opened to them; the foreigner who supplied the raw material would receive as a guarantee from the importing firm a bill, which would be accepted by one of Germany's largest banks; he would have the absolute pledge that the bills representing the exports would all be deposited with him until the sum advanced had been entirely repaid.

Most of the holders of raw material, however, and the foreign banks found these guarantees insufficient. They demanded to "follow" the raw material through its conversion in order to preserve a "real" right over the manufactured goods. Was this possible under German law? Professor Geiler claimed to have proved this to be in accordance with the jurisprudence of the Supreme Court which, according to him would admit it on the basis of an express understanding (*Frankfurter Zeitung*, February 6, 1920).

Several plans were formulated for the purpose of supplying financial creditors with reliable guarantees and of allowing control over borrowers.

Thus we may state briefly that Dr. Justus Schloss proposed the formation of a guarantee company ("Association of German Industries for Procuring Raw Materials") in which the existing share companies would participate to the extent of one-quarter of their capital (*Plutus*, January 1, 1920). Dr. Schloss does not seem to have distinguished sufficiently between those companies which require to buy raw material abroad and those which have no interest in this kind of transaction!

Professor Julius Hirsch, Under Secretary of State to the Imperial Ministry of Economy, having shown all the advantages to be gained from *grouping forces*, proposed the creation of a "fiduciary bank" (*Treuhandsbank*) which would play the part of a "Central Office for Institutions with Common Interests" and which would secure credits for the purchase of raw material and undertake all other *financial* operations (The text of the scheme was reproduced *in extenso* in *Plutus*, March 10, 1920).

Not without reason the scheme of "Co-operative credit companies for German industry" (*Creditgenossenschaften der deutschen Gewerbe*) is generally preferred. This scheme was established by Herr Hans Jordan, who, as a banker, had a great influence on the development of industries in the Elberfeld district. The combined "co-operative companies," which would be formed in the different branches of industry, would constitute a "*General* Credit Company" which would issue "commercial short and long term bills" guaranteed by the whole economic assets of Germany. These "commercial bills," bearing interest, would replace German notes on the world market. The "General Credit Company" would be a body *guaranteeing* and *controlling* all operations with foreign countries (*Plutus*, March 10, 1920). (The text of this proposal is reproduced in full in another account.)

Once the principle had been admitted that a large German company should act as guarantor and controller, it was easier to fix the conditions under which the foreigners or their agents should follow up, without losing sight of them, the raw materials in course of conversion as well as other important points in the credit transaction: precise descriptions would be placed on the buildings or on the stocks so as to indicate

clearly the real owner of the material; manufacturers would have to obtain orders of a certain importance abroad, and in a particular currency, before receiving the material to be converted; the profits arising from the said contracts would have to be *handed over*; the banks of the manufacturers would have to furnish their *guarantee*; experts would be permitted to take samples from the works, etc. (*Frankfurter Zeitung*, March 9, 1920.)

It must be acknowledged that the Germans have studied the question well and in a practical spirit. They even show themselves disposed, if need be, to alter their legislation in order to assure to the sellers of raw material all the "following" guarantees they might require during the time of the conversion of the raw material. (This has recently been done in German-Austria.)

The Imperial Government itself transacted the agreement arrived at between Germany and certain Dutch Companies for a credit of Fl. 200 millions, and was thus able to secure for the country not only margarine, cheese, coffee and tobacco but also raw materials.

Quite recently Professor J. F. Schär formulated in the *Deutsche Allgemeine Zeitung* (May 26 and 28, 1920) a plan for improving the exchange and, at the same time, assisting countries in periods of difficulty. He proposes to create "under the protection and control of the League of Nations," with branches in every State, a *central bank* which would procure funds by appealing to the European and American public, and would exercise control over the import and export trade of the countries in which it operated, thereby keeping itself in touch with the position of affairs. It would play the part of a *clearing house* in international relations.

In the case of a plan formed, as in this scheme, by combining two other plans, the objections already formulated against the individual plans do not disappear; they increase.

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